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TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945

STANFORD UNIVERSITY
JUN 1967
GOVT DOCUMENTS DIVISION

90-1

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

FIRST SESSION

ON

H.R. 6649

A BILL TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945, AS AMENDED, TO SHORTEN THE NAME OF THE BANK, TO EXTEND FOR FIVE YEARS THE PERIOD WITHIN WHICH THE BANK IS AUTHORIZED TO EXERCISE ITS FUNCTIONS, TO INCREASE THE BANK'S LENDING AUTHORITY AND ITS AUTHORITY TO ISSUE, AGAINST FRACTIONAL RESERVES, EXPORT CREDIT INSURANCE AND GUARANTEES, AND FOR OTHER PURPOSES

APRIL 11, 12, AND 28, 1967

Printed for the use of the Committee on Banking and Currency

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TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945

TUESDAY, APRIL 11, 1967

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to notice, at 10:08 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Multer, Barrett, Mrs. Sullivan, Ashley, Moorhead, St Germain, Gonzalez, Minish, Hanna, Gettys, Annunzio, Rees, Bingham, Galifianakis, Bevill, Kyros, Widnall, Fino, Mrs. Dwyer, Halpern, Brock, Clawson, Johnson, Stanton, Mize, Lloyd, Blackburn, Brown, Williams, and Wylie.

The CHAIRMAN. The committee will please come to order.

Preceding the hearing and comments on the Export-Import Bank bill we want to take up two or three housekeeping items. I do not think there will be any opposition to it.

Mr. Barrett?

Mr. BARRETT. Mr. Chairman, I am going to ask unanimous consent to insert my remarks in the record which were made at the caucus relative to the starting point of the hearings we will hold on the very small housing bill and other sundry amendments and then I will yield to Mrs. Sullivan to offer the nomenclature bill and other things.

The CHAIRMAN. Without objection, so ordered.

Mr. BARRETT. Mr. Chairman, on April 5 the Subcommittee on Housing held an organizational meeting and took several actions and made several recommendations to the full committee.

The subcommittee has scheduled hearings on Housing and Urban Development legislation beginning Tuesday, April 18 and running, if necessary, through Thursday, April 27. We will consider the administration's relatively modest housing bill H.R. 8068 introduced by Chairman Patman, bills introduced by Mr. Widnall, Mr. Fino, and other members, the vacation homes bill recommended by the National Association of Home Builders, and the amendments to the Federal National Mortgage Association recommended both by the National Association of Home Builders and the National Association of Real Estate Boards.

The subcommittee unanimously reported to the full committee the nomenclature bill S.J. Res. 42 which passed the Senate unanimously and which is purely technical, making the required changes to the statute in view of the Cabinet status of HUD. Mr. Chairman, I ask unanimous consent that the nomenclature bill be reported by the full committee and that the chairman take appropriate steps to have it placed on the Consent Calendar. Also, there is a minor technical error

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in the bill that passed the Senate and rather than correct it and require the Senate to pass the technical bill all over again, I ask unanimous consent the committee report contain a sentence clarifying the error.

The subcommittee also unanimously recommended the reprinting of the "Basic laws" on housing and urban development legislation and I ask unanimous consent that the full committee approve the reprinting of this useful document to reflect the many changes made by the 1966 act. To avoid delay, the nomenclature bill will be printed at the end of the "Basic laws."

The subcommittee unanimously approved the appointment of Miss Ellen Wilson as a replacement secretary of the subcommittee staff at a salary of approximately $5,900 and I ask unanimous consent for full committee approval of this action. The subcommittee also unanimously recommended approval of the hiring of a secretary for minority staff on the Housing Subcommittee at a salary of approximately $8,000 and I ask unanimous consent for full committee approval of this action.

Mrs. SULLIVAN. Mr. Chairman, as chairman of the Democratic caucus of the committee, I am instructed to make the following motions, which I am sure will have unanimous consent:

First, that the committee approve Senate Joint Resolution 42, the Housing Nomenclature bill, and order it reported; second, that the committee publish a revised and updated print of the basic housing laws; and, third, that authority be given to hire an additional secretary for the minority staff of the Subcommittee on Housing, to replace a secretary on the Housing Subcommittee staff, and to replace a secretary on the full committee staff.

I move the adoption of these proposals, along with a request that the chairman effectuate the staff changes so authorized, and that he report S.J. Res. 42 to the House and take whatever steps he considers necessary and appropriate to have it scheduled expeditiously for consideration by the House.

The CHAIRMAN. Is there any objection? The Chair hears none. So ordered.

(S.J. Res. 42 follows:)

[S.J. Res. 42, 90th Cong., first sess.]

JOINT RESOLUTION

To amend the National Housing Act, and other laws relating to housing and urban development, to correct certain obsolete references

Resolved by the Senate and the House of Representatives of the United States of America in Congress assembled, That (a) the National Housing Act is amended—

(1) by striking out "Federal Housing Administration" each place it appears and inserting in lieu thereof "Department of Housing and Urban Development";

(2) by striking out "Federal Housing Commissioner" each place it appears and inserting in lieu thereof "Secretary of Housing and Urban Development";

(3) by striking out "Commisioner" each place it appears and inserting in lieu thereof "Secretary"; and

(4) by striking out "commissioner's" each place it appears and inserting in lieu thereof "Secretary's".

(b) The heading of section 1 of such Act is amended by striking out "CREATION OF FEDERAL HOUSING ADMINISTRATION" and inserting in lieu thereof "ADMINISTRATIVE PROVISIONS".

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(c)(1) The first sentence of section 1 of such Act is amended to read as follows: "The powers conferred by this Act shall be exercised by the Secretary of Housing and Urban Development (hereinafter referred to as the 'Secretary')."

(2) The next to the last sentence of such section is amended by striking out "Administration" and inserting in lieu thereof "Department".

(d) Sections 2(c)(2), 204(g), 604(g), and 905(f) of such Act are amended by striking out "the Commissioner or by any Assistant Commissioner" and inserting in lieu thereof "an officer".

(e) The first sentence of section 206 of such Act is amended by striking out "shall be deposited" and inserting in lieu thereof "related to insurance under section 203 shall be deposited".

(f) The first sentence of section 209 of such Act is amended by adding "in connection with the insurance programs" after "made".

(g) Section 220(d)(1)(A) of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" each place it appears and inserting in lieu thereof "Secretary of Housing and Urban Development";

(2) by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary";

(3) by striking out "certification to the Commissioner" and inserting in lieu thereof "determination"; and

(4) by striking out "certified to the Commissioner" each place it appears and inserting in lieu thereof "determined".

(h) Section 223(a)(2) of such Act is amended—

(1) by striking out "Public Housing Administration" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(2) by striking out "and Administration" and inserting in lieu thereof "Secretary".

(i) The heading of section 226 of such Act is amended by striking out "FHA".

(j)(1) Section 302(a) of such Act is amended by striking out "a constituent agency of the Housing and Home Finance Agency" and inserting in lieu thereof "in the Department of Housing and Urban Development".

(2) The last sentence of section 303(a) of such Act is amended by striking out "Secretary's" and inserting in lieu thereof "Secretary of the Treasury's".

(k) Section 306(e) of such Act is amended by striking out "Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(l) Sections 303(g) and 308 of such Act are amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(m) Section 308 of such Act is further amended by striking out "said Administrator" each place it appears and inserting in lieu thereof "the Secretary".

(n) The third paragraph of section 603(a) of such Act is amended by striking out "in any field office of" and inserting in lieu thereof "by".

(o) The second paragraph of section 610 of such Act is amended—

(1) by striking out "Public Housing Administration" and inserting in lieu thereof "Secretary"; and

(2) by striking out "said Administration" and inserting in lieu thereof "Secretary".

(p) Section 803(b)(2) of such Act is amended—

(1) by striking out "Secretary or his designee" in the first sentence and inserting in lieu thereof "Secretary of Defense or his designee";

(2) by striking out "certified by the Secretary" in the third sentence and inserting in lieu thereof "certified by the Secretary of Defense";

(3) by striking out "require the Secretary" in the third sentence and inserting in lieu thereof "require the Secretary of Defense"; and

(4) by striking out "Secretary to guarantee" in the fourth sentence and inserting in lieu thereof "Secretary of Defense to guarantee".

(q) Section 807 of such Act is amended by striking out the second sentence.

(r) Section 809 of such Act is amended—

(1) by striking out "Secretary or his designee" in subsections (a) and (b) and inserting in lieu thereof "Secretary of Defense or his designee";

(2) by striking out "Secretary to guarantee" in subsection (b) and inserting in lieu thereof "Secretary of Defense to guarantee";

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(3) by striking out "'Secretary or his designee', and 'Secretary'" in subsection (g)(2)(i) and inserting in lieu thereof "'Secretary of Defense or his designee', and 'Secretary of Defense'"; and

(4) by striking out "such Administration" in both places it appears in subsection (g)(2)(iii) and inserting in lieu thereof "the National Aeronautics and Space Administration".

(s) Section 903(a) of such Act is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(t) Section 903(d) of such Act is amended by striking out ", with the approval of the Housing and Home Finance Administrator,".

(u) Section 1003(b)(3) of such Act is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary".

SEC. 2. (a) The United States Housing Act of 1937 is amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

(b) Section 3 of such Act is amended to read as follows:

"UNITED STATES HOUSING AUTHORITY

"SEC. 3. There is hereby created in the Department of Housing and Urban Development a body corporate of perpetual duration to be known as the United States Housing Authority, which shall be an agency and instrumentality of the United States. The functions, powers, and duties of the Authority are vested in and shall be exercised by the Secretary of Housing and Urban Development (hereinafter referred to as the 'Secretary'). No officer or employee of the Department of Housing and Urban Development, in the performance of any such functions, powers, or duties, shall participate in any matter affecting his personal interest or the interest of any corporation, partnership, or association in which he is directly or indirectly interested."

(c) Section 4 of such Act is amended by striking out subsections (a) and (b) and redesignating subsections (c) and (d) as subsections (a) and (b).

(d) Section 5(b) of such Act is amended by striking out "shall sue" and inserting in lieu thereof "may sue".

(e) Section 5 of such Act is further amended by striking out subsection (c) and redesignating subsections (d) and (e) as subsections (c) and (d), respectively.

(f) Section 7(b) of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary"; and

(2) by striking out "Housing and Home Finance Agency" and inserting in lieu thereof "Department of Housing and Urban Development".

(g) Section 13(b) of such Act is amended by striking out "4(d)" and inserting in lieu thereof "4(b)".

(h) Section 16(1) of such Act is amended by striking out "suits shall" in the proviso and inserting in lieu thereof "suits may".

(i) Section 16 of such Act is further amended by striking out paragraphs (3) and (4) and redesignating paragraph (5) as paragraph (3).

(j) Section 22(b) of such Act is amended by striking out "first" in the proviso.

SEC. 3. Section 20 of the District of Columbia Redevelopment Act of 1945 is amended—

(1) by striking out "Housing and Home Finance Administrator (hereafter in this section referred to as the Administrator)" in subsection (a) and inserting in lieu thereof "Secretary of Housing and Urban Development (hereinafter in this section referred to as the Secretary)"; and

(2) by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

SEC. 4. Section 101 of the Government Corporation Control Act is amended by striking out "Federal Public Housing Authority (or Public Housing Administration)" and inserting in lieu thereof "United States Housing Authority".

SEC. 5. (a) Section 301 of the Housing Act of 1948 is amended—

(1) by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development";

(2) by striking out "Administrator" each place it appears in subsections (a) and (b) and inserting in lieu thereof "Secretary"; and

(3) by striking out the last two sentences of subsection (a).

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(b) Section 302 of such Act is amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

(c) Section 304 of such Act is repealed.

(d) Section 502 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" in subsection (a) and inserting in lieu thereof "Secretary of Housing and Urban Development";

(2) by striking out "Administrator" each place it appears in subsection (a) and inserting in lieu thereof "Secretary";

(3) by striking out the next to the last sentence in subsection (a);

(4) by striking out "Public Housing Administration" each place it appears in the first and fourth sentences of subsection (b) and inserting in lieu thereof "United States Housing Authority";

(5) by striking out "Administration" each place it appears in the third sentence of subsection (b) and inserting in lieu thereof "Authority";

(6) by striking out "shall sue" in the first sentence of subsection (b) and inserting in lieu thereof "may sue";

(7) by striking out the second sentence of subsection (b);

(8) by striking out "Housing and Home Finance Administrator, the Home Loan Bank Board" where it first appears in subsection (c) and inserting in lieu thereof "Secretary of Housing and Urban Development and the Federal Home Loan Bank Board";

(9) by striking out "Home Loan Bank Board), the Federal Housing Commissioner, and the Public Housing Commissioner" in subsection (c) and inserting in lieu thereof "Federal Home Loan Bank Board)";

(10) by striking out "Housing and Home Finance Administrator, the Home Loan Bank Board, the Federal Housing Commissioner, and the Public Housing Commissioner" in subsection (c)(3) and inserting in lieu thereof "Secretary of Housing and Urban Development and the Federal Home Loan Band Board";

(11) by striking out "said officers or agencies" in subsection (c)(3) and inserting in lieu thereof "such officer or agency";

(12) by striking out "Housing and Home Finance Administrator, the Federal Housing Commissioner, and the Public Housing Commissioner, respectively, may utilize funds made available to them" in subsection (d) and inserting in lieu thereof "Secretary of Housing and Urban Development may utilize funds made available to him"; and

(13) by striking out "of the respective agencies" in subsection (d).

SEC. 6. (a) Section 2 of the Housing Act of 1949 is amended by striking out "The Housing and Home Finance Agency and its constituent agencies" and inserting in lieu thereof "The Department of Housing and Urban Development".

(b) Title I of such Act is amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary."

(c) Section 101(c) of such Act is amended by striking out "to the constituent agencies affected".

(d) The last sentence of section 103(b) of such Act is amended by striking out "paid for accrued to the Secretary" and inserting in lieu thereof "paid or accrued to the Secretary of the Treasury".

(e) Section 106(a) of such Act is amended by striking out paragraph (1) and redesignating paragraphs (2) and (3) as (1) and (2), respectively.

(f) Section 107(b) of such Act is amended by striking out "Public Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(g) Section 110(j) of such Act is amended to read as follows:

"(j) 'Secretary' means the Secretary of Housing and Urban Development".

(h) Section 601 of such Act is amended (A) by striking out "The Housing and Home Finance Administrator and the head of each constituent agency of the Housing and Home Finance Agency" and inserting in lieu thereof "The Secretary of Housing and Urban Development", and (B) by striking out "each" and inserting in lieu thereof "he".

(i) Section 605 of such Act is repealed.

(j) Section 612 of such Act is amended by striking out "Housing and Home Finance Agency" each place it appears and inserting in lieu thereof "Department of Housing and Urban Development".

SEC. 7. Section 602(d)(11) of the Federal Property and Administrative Services Act of 1949 is amended by striking out "the Housing and Home Finance Agency, or any officer or constituent agency therein," and inserting in lieu thereof "the Department of Housing and Urban Development or any officer thereof".

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SEC. 8. (a) Title IV of the Housing Act of 1950 is amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

(b) Section 402(c)(2) of such Act is amended by striking out "Federal Security Agency" and inserting in lieu thereof "Department of Health, Education, and Welfare".

(c) Section 404(f) of such Act is amended to read as follows:

"(f) 'Secretary' means the Secretary of Housing and Urban Development."

(d) Section 507 of such Act is amended—

(1) by striking out "Public Housing Administration" and inserting in lieu thereof "Secretary of Housing and Urban Development", and

(2) by striking out "said Administration" and inserting in lieu thereof "the Secretary".

(e) Section 508 of such Act is amended by striking out "Federal Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 9. Section 304 of the Territorial Enabling Act of 1950 is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 10. (a) Sections 312, 314, 701, and 702 of the Housing Act of 1954 are amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

(b) Section 125 of such Act is amended by striking out "Commissioner" in both places where it appears and inserting in lieu thereof "Secretary of Housing and Urban Development".

(c) Section 314(a) of such Act is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(d) Section 703 of such Act is amended by striking out clause (2) and inserting in lieu thereof "(2) the term 'Secretary' shall mean the Secretary of Housing and Urban Development;".

(e) Section 801 of such Act is amended—

(1) by striking out "Federal Housing Commissioner" each place it appears and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(2) by striking out "Commissioner" each place it appears and inserting in lieu thereof "Secretary".

(f) Section 802(a) of such Act is amended—

(1) by striking out "FHA";

(2) by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(3) by striking out "Housing and Home Finance Agency" and inserting in lieu thereof "Department of Housing and Urban Development".

(g) Section 811 of such Act is amended by striking out "Housing and Home Finance Agency, including its constituent agencies" and inserting in lieu thereof "Department of Housing and Urban Development".

(h) Section 814 of such Act is amended—

(1) by striking out "Federal Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development";

(2) by striking out "Housing and Home Finance Agency (or any official or constituent thereof)" and inserting in lieu thereof "Department of Housing and Urban Development";

(3) by striking out "Housing and Home Finance Agency (or such official or constituent thereof)" and inserting in lieu thereof "Department of Housing and Urban Development"; and

(4) by striking out "Housing and Home Finance Agency or any official or constituent agency thereof" and inserting in lieu thereof "Department of Housing and Urban Development".

(i) Section 816 of such Act is amended by striking out "Public Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(j) Section 817 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(2) by striking out "Housing and Home Finance Agency" and inserting in lieu thereof "Department of Housing and Urban Development".

SEC. 11. Sections 32 and 62 a. of the Atomic Energy Community Act of 1955 are amended by striking out "Federal Housing Commissioner" each place it ap-

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pears and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 12 (a) Section 113 of the Housing Amendments of 1955 is repealed.

(b) Title II of such amendments is amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

(c) Section 202(a) of such amendments is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(d) Section 403 of such amendments is amended by striking out "Commissioner" each place it appears and inserting in lieu thereof "Secretary of Housing and Urban Development".

(e) Section 404 of such amendments is amended—

(1) by striking out "Federal Housing Commissioner" each place it appears and inserting in lieu thereof "Secretary of Housing and Urban Development";

(2) by striking out "Federal Housing Commissioner's" in subsection (a) and inserting in lieu thereof "Secretary of Housing and Urban Development's"; and

(3) by striking out "Commissioner" each place it appears in subsection (a) and inserting in lieu thereof "Secretary of Housing and Urban Development".

(f) Section 406 of such amendments is amended—

(1) by striking out "Public Housing Administration" and inserting in lieu thereof "Secretary of Housing and Urban Development";

(2) by striking out "Federal Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(3) by striking out "Federal Housing Administration" and inserting in lieu thereof "Department of Housing and Urban Development".

(g) Section 409(a) of such amendments is amended by striking out "or Secretary'."

(h) Title IV of such amendments is further amended by inserting "of Defense" after "Secretary"—

(1) in the fourth and sixth sentences of section 403(a);

(2) in section 403(b);

(3) in the last three sentences of section 403(d);

(4) in the priviso in section 404(a);

(5) in the next to last sentence of section 404(c)(2);

(6) where it first appears in section 404(e);

(7) in the third priviso in section 406; and

(8) in the last two sentences of section 406.

SEC. 13. (a) Section 104(d) of the Housing Act of 1956 is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(b) Section 602 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" in subsection (a) and inserting in lieu thereof "Secretary of Housing and Urban Development".

(2) by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary"; and

(3) by striking out "Housing and Home Finance Agency" in subsection (c) and inserting in lieu thereof "Department of Housing and Urban Development".

SEC. 14. (a) Section 104 of the Housing Act of 1957 is amended by striking out "Federal Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(b) Section 604 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Developent"; and

(2) by striking out "Housing and Home Finance Agency" and inserting in lieu thereof "Department of Housing and Urban Development".

(c) Section 605 of such Act is amended—

(1) by striking out "Federal Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(2) by striking out "Commissioner" and inserting in lieu thereof "Secretary".

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SEC. 15. (a) Section 52, 53, and 56 of the Alaska Omnibus Act are amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(b) Section 53 of such Act is further amended by striking out "Administrator" in the second paragraph and inserting in lieu thereof "Secretary".

SEC. 16. (a) Section 202 of the Housing Act of 1959 is amended—

(1) by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary";

(2) by striking out in subsection (c)(2) ", except" and all that follows down through and including "section 513"; and

(3) by changing subsection (d)(6) to read as follows:

"(6) The term 'Secretary' means the Secretary of Housing and Urban Development."

(b) Section 306(b) of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(2) by striking out "Administrator" and inserting in lieu thereof "Secretary".

(c) Sections 802(a) and 808 of such Act are amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 17. Section 5 of the Act of September 8, 1960 (74 Stat. 872), is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 18. (a) Sections 207 and 312 of the Housing Act of 1961 are amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(b) Section 312 of such Act is further amended by striking out "Administrator" and inserting in lieu thereof "Secretary".

(c) Title VII of such Act is amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

(d) Section 702(a) of such Act is amended by striking out "Housing and Home Finance Administrator (hereinafter referred to as the 'Administrator')" and inserting in lieu thereof "Secretary of Housing and Urban Development (hereinafter referred to as the 'Secretary')".

(e) Section 905 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator and the Public Housing Administration are" and inserting in lieu thereof "Secretary of Housing and Urban Development is"; and

(2) by striking out "Administration" both places it appears and inserting in lieu thereof "Secretary".

SEC. 19. Section 2 of the Senior Citizens Housing Act of 1962 is amended by striking out "Housing and Home Finance Agency" in the second sentence and inserting in lieu thereof "Department of Housing and Urban Development".

SEC. 20. (a) The Urban Mass Transportation Act of 1964 is amended by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary".

(b) Section 12(c)(3) of such Act is amended to read as follows:

"(3) the term 'Secretary' means the Secretary of Housing and Urban Development;".

SEC. 21. (a) Section 107(g) of the Housing Act of 1964 is amended by striking out "Federal Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development".

(b) Section 312 of such Act is amended—

(1) by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary";

(2) by striking out "Housing and Home Finance Administrator" in subsection (a) and inserting in lieu thereof "Secretary of Housing and Urban Development";

(3) by changing subsection (b)(4) to read as follows:

"(4) the term 'Secretary' means the Secretary of Housing and Urban Development."; and

(4) by striking out "Federal Housing Commissioner" in subsection (c)(4)(A) and inserting in lieu thereof "Secretary of Housing and Urban Development".

(c) Section 318 of such Act is amended by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development".

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(d) Title VIII of such Act is amended by striking out "Administrator" each ce it appears and inserting in lieu thereof "Secretary".

(e) Section 805(a) of such Act is amended by striking out "'Administrator' ans the Housing and Home Finance Administrator" and inserting in lieu reof "'Secretary' means the Secretary of Housing and Urban Development".

(f) Section 810 of such Act is amended by striking out "Housing and Home ance Administrator" in subsections (a) and (b) and inserting in lieu thereof cretary of Housing and Urban Development".

(g) Section 1005 of such Act is amended—

(1) by striking out "Federal Housing Commissioner" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(2) by striking out "Federal Housing Administration" and inserting in lieu thereof "Department of Housing and Urban Development."

(h) Section 1006 of such Act is amended by striking out "Public Housing missioner" and inserting in lieu thereof "Secretary of Housing and Urban elopment."

(i) Section 1007 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator and the Public Housing Commissioner are" each place it appears and inserting in lieu thereof "Secretary of Housing and Urban Development is"; and

(2) by striking out "Public Housing Administration" and inserting in lieu thereof "Secretary".

SEC. 22. (a) The Housing and Urban Development Act of 1965 is amended by iking out "Administrator" each place it appears in sections 101 (c), (d), (e), d (g); 301(b); 313(b); 315(a) (8); 402; and 404(a), and inserting in lieu reof in each instance "Secretary".

(b) Title VII of such Act is amended by striking out "Administrator" each ce it appears and inserting in lieu thereof "Secretary".

(c) Section 101 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator (hereinafter referred to as the 'Administrator')" in subsection (a) and inserting in lieu thereof "Secretary of Housing and Urban Development (hereinafter referred to as the 'Secretary')"; and

(2) by striking out all of the second sentence of subsection (g) and inserting in lieu thereof "Nothing contained in this section shall affect the authority of the Secretary of Housing and Urban Development with respect to any housing assisted under this section, section 221(d) (3), or section 231(c)(3) of the National Housing Act, or section 202 of the Housing Act of 1959, including the authority to prescribe occupancy requirements under other provisions of law or to determine the portion of such housing which may be occupied by qualified tenants."

(d) Section 301 of such Act is amended by striking out "Housing and Home ance Administrator" in the third sentence of subsection (a) and inserting in u thereof "Secretary of Housing and Urban Development."

(e) Section 315 of such Act is amended—

(1) by striking out "Housing and Home Finance Administrator" in subsection (a)(8) and inserting in lieu thereof "Secretary of Housing and Urban Development";

(2) by striking out "Housing and Home Finance Administrator and Public Housing Commissioner are" in subsections (b)(1) and (b)(2) and inserting in lieu thereof "Secretary of Housing and Urban Development is"; and

(3) by striking out "Public Housing Administration" in subsection (b)(1) and inserting in lieu thereof "Secretary".

(f) Section 401(5) of such Act is amended to read as follows:

"(5) the term 'Secretary' means the Secretary of Housing and Urban Development."

(g) Section 702(a) of such Act is amended by striking out "Housing and Home nance Administrator (hereinafter in this title referred to as the 'Administrator')" and inserting in lieu thereof "Secretary of Housing and Urban Development (hereinafter in this title referred to as the 'Secretary')".

(h) Section 1113 of such Act is amended by striking out "Housing and Home nance Administrator" and inserting in lieu thereof "Secretary of Housing and ban Development".

SEC. 23. Section 501 of the Military Construction Authorization Act, 1966, is mended—

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(1) by striking out "Administrator, Housing and Home Finance Agency" in the first sentence and inserting in lieu thereof 'Secretary of Housing and Urban Development"; and

(2) by striking out "Administrator" in the second sentence and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 24. (a) Sections 493, 657, and 1006 of title 18, United States Code, are amended by striking out "Federal Housing Administration" and inserting in lieu thereof "Department of Housing and Urban Development".

(b) The eighth paragraph of section 709 of such title is amended to read as follows:

"Whoever uses as a firm or business name the words 'Department of Housing and Urban Development', 'Housing and Home Finance Agency', 'Federal Housing Administration', 'Federal National Mortgage Association', 'United States Housing Authority', or 'Public Housing Administration' or the letters 'HUD', 'FHA', 'PHA', or 'USHA', or any combination or variation of those words or the letters 'HUD', 'FHA', 'PHA', or 'USHA' alone or with other words or letters reasonably calculated to convey the false impression that such name or business has some connection with, or authorization from, the Department of Housing and Urban Development, the Housing and Home Finance Agency, the Federal Housing Administration, the Federal National Mortgage Association, the United States Housing Authority, the Public Housing Administration, the Government of the United States, or any agency thereof, which does not in fact exist, or falsely claims that any repair, improvement, or alteration of any existing structure is required or recommended by the Department of Housing and Urban Development, the Housing and Home Finance Agency, the Federal Housing Administration, the Federal National Mortgage Association, the United States Housing Authority, the Public Housing Administration, the Government of the United States, or any agency thereof, for the purpose of inducing any person to enter into a contract for the making of such repairs, alterations, or improvements, or falsely advertises or falsely represents by any device whatsoever that any housing unit, project, business, or product has been in any way endorsed, authorized, inspected, appraised, or approved by the Department of Housing and Urban Development, the Housing and Home Finance Agency, the Federal Housing Administration, the Federal National Mortgage Association, United States Housing Authority, the Public Housing Administration, the Government of the United States, or any agency thereof; or".

(c) Section 1010 of such title is amended—

(1) by changing the section heading to read as follows:

"§ 1010. Department of Housing and Urban Development and Federal Housing Administration transactions.";

(2) by striking out "Federal Housing Administration" and inserting in lieu thereof "Department of Housing and Urban Development"; and

(3) by striking out "such Administration" both places it appears and and inserting in lieu thereof "such Department".

(d) Section 1012 of such title is amended—

(1) by changing the section heading to read as follows:

"§ 1012. Department of Housing and Urban Development transactions.";

(2) by striking out "Public Housing Administration" and inserting in lieu thereof "Department of Housing and Urban Development"; and

(3) by striking out "such Administration" each place it appears and inserting in lieu there of "such Department".

(e) The analysis of chapter 47, title 18, United States Code, immediately preceding section 1001, is amended—

(1) by striking out the item relating to section 1010 and inserting in lieu thereof

"1010. Department of Housing and Urban Development and Federal Housing Administration transactions.";

and

(2) by striking out the item relating to section 1012 and inserting in lieu thereof

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"1012. Department of Housing and Urban Development transactions."

SEC. 25. Title 38, United States Code, is amended—

(1) by striking out "Federal Housing Administration approved mortgagee designated by the Federal Housing Commissioner" in section 1802(d) and inserting in lieu thereof "mortgagee approved by the Secretary of Housing and Urban Development and designated by him"; and

(2) by striking out "Federal Housing Commissioner" insubsections (b), (d), and (e) of section 1804 and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 26. The fourth paragraph of section 24 of the Federal Reserve Act is amended by striking out "Housing and Home Finance Administrator" in the first sentence and inserting in lieu thereof "Secretary of Housing and Urban Development".

SEC. 27. (a) The penultimate sentence of paragraph seventh of section 5136 of the Revised Status (12 U.S.C. 24) is amended—

(1) by striking out "Federal Housing Administrator" and inserting in lieu thereof "Secretary of Housing and Urban Development (hereafter in this sentence referred to as the 'Secretary')";

(2) by striking out "Housing and Home Finance Administrator" and inserting in lieu thereof "Secretary";

(3) by striking out "Administrator" each place it appears and inserting in lieu thereof "Secretary"; and

(4) by striking out "Public Housing Administration" each place it appears and inserting in lieu thereof "Secretary".

(b) Paragraph (11) of section 5200 of the Revised Statutes (12 U.S.C. 84) is amended—

(1) by striking out "Housing and Home Finance Administrator or the Public Housing Administration" and inserting in lieu thereof "Secretary of Housing and Urban Development"; and

(2) by striking out "Administrator or Administration" each place it appears and inserting in lieu thereof "Secretary".

SEC. 28. Any function or authority vested in or exercisable by the Federal Home Loan Bank Board, the Chairman thereof, or the Federal Savings and Loan Insurance Corporation immediately before the enactment of this Act shall not by this section or anything therein be affected or impaired, or subjected to any restriction or limitation to which it was not then subject.

Passed the Senate February 20, 1967.

FRANCIS R. VALEO,
Secretary.

The CHAIRMAN. This meeting of the committee has been called today to hold hearings on H.R. 6649 and H.R. 6650, identical bills to amend the Export-Import Bank Act of 1945.

(H.R. 6649 follows:)

[H.R. 6649, 90th Cong., first sess.]

A BILL To amend the Export-Import Bank Act of 1945, as amended, to shorten the name of the Bank, to extend for five years the period within which the Bank is authorized to exercise its functions, to increase the Bank's lending authority and its authority to issue, against fractional reserves, export credit insurance and guarantees, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), be and the same is hereby further amended as follows:

(a) By striking from the name of the Export-Import Bank of Washington the words "of Washington" wherever the same appears in said Act.

(b) By striking from section 2(c) of said Act "$2,000,000,000" and substituting in lieu thereof "$3,500,000,000".

(c) By striking the last sentence from section 3(d) of said Act and substituting in lieu thereof: "Members, not otherwise in the regular full-time employ of the United States, may be compensated at rates not exceeding the per diem equivalent of the rate for grade 18 of the General Schedule (5 U.S.C. 5332) for each day spent in travel or attendance at meetings of the Committee, and while so serving away from their homes or regular places of business, they

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may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for individuals in the Government service employed intermittently."

(d) By striking from section 7 of said Act "$9,000,000,000" and substituting in lieu thereof "$13,500,000,000".

(e) By striking from section 8 of said Act the date "June 30, 1968" and substituting in lieu thereof the date "June 30, 1973".

The CHAIRMAN. Before hearing the testimony of the Honorable Harold F. Linder, President and Chairman of the Board of the Export-Import Bank of Washington, let me review very briefly the two major changes in the Export-Import Bank Act which are being recommended by the administration of this time.

These changes can be summarized as follows:

(1) Provide for a 5-year extension of the Export-Import Bank's operations. The present life of the Bank expires June 30, 1968. The bills we are considering today would extend that until June 30, 1973.

(2) Increase the Bank's lending authority and authority to issue credit insurance and guarantees. Under the present Act Eximbank is authorized to have loans, guarantees, and credit insurance outstanding up to the limit of $9 billion. The proposed amendment would increase this figure by $4.5 billion to $13.5 billion. This proposed legislation would also raise the limit on guarantees and credit insurance from $2 billion to $3.5 billion.

The Export-Import Bank was originally created by Executive order in 1934 by President Roosevelt. Therefore, it has been been operating continuously for 33 years. In 1945 the Bank was reorganized as an independent agency and chartered by act of Congress. Since that time it has operated with periodic extensions granted by the Congress. In recent years these extensions have been for periods of 5 years.

All in all the Export-Import Bank over the years has provided a great service to American business and to the financial community, as well as to the Government, by offering financing and other services for the increasingly important area of export trade. In recent years the importance of increasing exports has been even greater in the face of the U.S. balance-of-payments problem.

At this point in the record, without objection, I would like to submit a legislative history of the Export-Import Bank prepared by the committee staff with the assistance of the staff of the Export-Import Bank.

(The material referred to follows:)

LEGISLATIVE HISTORY OF EXPORT-IMPORT BANK

CREATION AND EARLY HISTORY—1934 TO 1945

Creation.—The Export-Import Bank of Washington was created on February 12, 1934, as a banking corporation under the laws of the District of Columbia pursuant to Executive Order 6581 dated February 2, 1934.

Authority for creation.—The Executive Order of February 2, 1934, was issued by the President under authority of the National Industrial Recovery Act and particularly section 2 thereof which authorized the President to establish agencies of the Government to effect the purposes of the act.

Limited existence.—Since agencies created under the NIRA had a life limited to 2 years, the existence of the Bank was extended by the Congress from time to time, generally for periods of 2 years.

[In order to provide certain credits for the Republic of Cuba, the Second Export-Import Bank of Washington was created in 1934 in the same manner as the

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original Bank. In 1936 the Second Bank was liquidated and all its assets and obligations transferred to the original Bank.]

Funds.—The original stock of the Export-Import Bank was $11 million. Common stock consisted of $1 million subscribed and held jointly by the Secretary of State and the Secretary of Commerce for the benefit of the United States. Preferred stock, originally fixed at $10 million, was purchased by the Reconstruction Finance Corporation pursuant to the Bank Conservation Act of March 9, 1933. As additional funds were required the authorized preferred stock was increased and sold to the Reconstruction Finance Corporation.

Management.—From 1934 to 1945 the Bank was governed by a Board of Trustees elected by the stockholders, both the common and preferred. The size of the Board was increased from time to time until it had 11 members. Departments such as State, Treasury, Commerce and Agriculture and the Reconstruction Finance Corporation were customarily represented on the Board. The President of the Bank and occasionally, other officers of the Bank were elected as Trustees. At different times representatives of the Federal Reserve Board and the Federal Trade Commission served as Trustees.

Lending authority (Limitation 1939).—Prior to 1939, the only limitation on lending authority of the Bank was its ability to sell preferred stock to the Reconstruction Finance Corporation. The act of Congress of March 4, 1939 (53 Stat. 510), extending the life of the Bank for a 2-year period, placed a limit of $100 million on the amount of loans which the Bank might have outstanding at any one time.

Lending authority (Increase, Mar. 1940).—On March 2, 1940 (54 Stat. 38), the lending authority of the Bank was increased from $100 million to $200 million of loans outstanding at any one time.

Lending authority (Increase, Sept. 1940).—On September 26, 1940 (54 Stat. 962), the lending authority of the Bank was increased from $200 million to $700 million outstanding at any one time. The Bank was authorized to obtain the additional $500 million from the Reconstruction Finance Corporation only for the purpose of making loans within the Western Hemisphere and upon the written request in each case of the Federal Loan Administrator with the approval of the President of the United States.

EXPORT-IMPORT BANK ACT OF 1945

(July 31, 1945, 59 Stat. 526)

In July of 1945 the Bank was reorganized as an independent agency of the United States with powers set forth in the act of Congress.

Management.—Management was vested in the Board of Directors consisting of the Secretary of State, ex officio, and four full-time members appointed by the President of the United States, with the advice and consent of the Senate. Members were appointed for 5-year terms.

Lending authority.—The Bank was authorized to have outstanding at any one time $3.5 billion; was authorized to issue for purchase by the Treasury $1 billion in capital stock; and, was authorized to borrow from the Treasury in an aggregate amount outstanding at any one time not exceeding $2.5 billion.

Life of the Bank.—No limitation was placed on the period during which the Bank could continue to do business.

Advisory committee.—The act of 1945 provided for an Advisory Committee consisting of the Secretary of the Treasury, the Secretary of State and Chairman of the Federal Reserve Board under the chairmanship of the Chairman of the Board of the Export-Import Bank. (In view of the fact that the same Congress created the National Advisory Council (NAC) with the same personnel and under the chairmanship of the Secretary of the Treasury, no meeting was ever called of the Advisory Committee established specifically for the Bank.)

REINCORPORATION, 1947

Pursuant to the requirements of the Government Corporation Control Act regarding Federal charters for Government corporate agencies, the Export-Import Bank Act of 1945 was amended on June 9, 1947 (61 Stat. 130) to include a time limitation to June 30, 1953, upon the authority of the Bank to make new loans. This period has since been extended from time to time, the last extension being from June 30, 1963, to June 30, 1968.

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INCREASED LENDING AUTHORITY AND EXTENSION OF LIFE, 1951

On October 3, 1951 (65 Stat. 367) the lending authority of the Bank was increased from $3.5 billion to $4.5 billion; the authority of the Bank to borrow from the Treasury was increased from $2.5 billion to $3.5 billion; and the life of the Bank was extended from June 30, 1953, to June 30, 1958.

PRESIDENTIAL REORGANIZATION, 1953

On April 30, 1953, the President of the United States sent to Congress a plan for reorganizing the Export-Import Bank. This plan (Reorganization Plan No. 5 of 1953, 67 Stat. 637): (1) abolished the Board of Directors and placed the management of the Bank under a single Managing Director, (2) authorized the NAC to establish general lending and financial policies to govern the Managing Director in the conduct of the operation of the Bank, and (3) removed the Bank from representation on the NAC.

INSURANCE ON EXPORTS, 1953

On May 21, 1953, the Congress further amended the Export-Import Bank Act of 1945 (67 Stat. 28) to authorize the Bank to provide insurance against the risks of war and expropriation of U.S. exports located in friendly foreign countries and while title and control of such exports remained in the U.S. exporter, in an aggregate amount not in excess of $100 million. (It should be noted, that the insurance authorized by this act related to property insurance but not to credit insurance.)

CONGRESSIONAL REORGANIZATION, 1954

Following hearings by the Senate Banking and Currency Committee under the chairmanship of Senator Capehart, the Export-Import Bank Act of 1945 was further amended on August 9, 1954 (Public Law 570, 83d Cong., 68 Stat. 677) to reestablish a Board of Directors and redesignate the Chairman of the Board as a member of the NAC. The new legislation resulted in the following changes:

Management.—The management of the Bank as an independent agency was placed in the Board of Directors consisting of five full-time members appointed by the President, with the advice and consent of the Senate, with not more than three members to be of any one political party. Directors to serve at the pleasure of the President of the United States without definite terms. (The Secretary of State was no longer a member of the Board, ex officio.)

Lending authority.—The lending authority of the Bank was increased to permit the Bank to have $5 billion of loans, guarantees and insurance outstanding at any one time, and increased the amount the Bank was authorized to borrow from the Treasury to $4 billion outstanding at any one time.

Advisory Committee.—The provisions regarding an Advisory Committee of Government officials were eliminated. Provision was made for the creation of a new Advisory Committee consisting of nine members appointed by the Board of Directors on recommendation of the President of the Bank "who shall be broadly representatives of production, commerce, finance, agriculture, and labor."

EXTENSION OF LIFE, 1957

On June 17, 1957 (71 Stat. 82) the Congress amended the Export-Import Bank Act of 1945 by extending the life of the Bank from June 30, 1958, to June 30, 1963.

INCREASED LENDING AUTHORITY, 1958

On May 22, 1958 (72 Stat. 133) the Congress further increased the lending authority of the Bank so as to authorize the Bank to have outstanding at any one time loans, guarantees, and insurance in an aggregate amount not exceeding $7 billion, and increased the amount the Bank was authorized to borrow from the Treasury to $6 billion outstanding at any one time.

AUTHORITY TO ISSUE EXPORT CREDIT INSURANCE, 1961

On September 26, 1961, the Congress enacted Public Law 87-311 (75 Stat. 673) which specifically authorized the Bank, in furtherance of its objects and purposes, to issue, against fractional reserves, export credit insurance and export credit guarantees in an aggregate amount not in excess of $1 billion.

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This act further authorized the Bank to issue the insurance and guarantees in participation with private insurance companies and other financial institutions

INCREASED LENDING AUTHORITY AND EXTENSION OF LIFE, 1963

On August 20, 1963, the Congress enacted Public Law 88-101 (77 Stat. 128) pursuant to which the lending authority of the Bank was increased from $7 billion to $9 billion; the aggregate amount of export credit insurance and guarantees which the Bank may have outstanding, against fractional reserves, was increased from $1 billion to $2 billion; and the life of the Bank was extended from June 30, 1963 to June 30, 1968.

APPROPRIATIONS ACTS—LIMITATIONS

Commencing with the fiscal year 1962 (Foreign Assistance and Related Agencies Appropriation Act, 1962, Public Law 87-329, 75 Stat. 717), the Congress imposed a limitation on the volume of business the Bank might do during the fiscal year with the following language:

"LIMITATION ON OPERATING EXPENSES

"Not to exceed $1,300,000,000 (of which not to exceed $800,000,000 shall be for development loans) shall be obligated during the current fiscal year for other than administrative expenses."

A limitation, in language similar to that quoted above but in varying amounts, has been included in each of the succeeding Foreign Aid and Related Agencies Appropriation Acts. The limitation for the fiscal year ending June 30, 1967, provides that not to exceed $2,708,241,000 (of which not to exceed $2,275,000,000 for equipment and services loans) shall be authorized during the current fiscal year for other than administrative expenses. The Bank's estimated budget for fiscal year ending June 30, 1968, contemplates new authorizations aggregating $2,850,000,000 (of which not to exceed $2,295,000,000 will be for equipment and services loans).

In addition, commencing with the Foreign Aid and Related Agencies Appropriation Act, 1964 (Public Law 88-258, 77 Stat. 857), and in similar language annually thereafter, the Congress stipulated with respect to Eximbank, that:

"None of the funds made available because of the provisions of this title shall be used by the Export-Import Bank to either guarantee the payment of any obligation hereafter incurred by any Communist country (as defined in section 620(f) of the Foreign Assistance Act of 1961, as amended) or any agency or national thereof, or in any other way to participate in the extension of credit to any such country, agency, or national, in connection with the purchase of any product by such country, agency, or national, except when the President determines that such guarantees would be in the national interest and reports each such determination to the House of Representatives and the Senate within 30 days after such determination."

The CHAIRMAN. Before asking President Linder to give his statement in support of these amendments to the Export-Import Bank Act, I would also like to state that I have received statements in support of this legislation from the following agencies, businesses, and trade associations:

The Department of State; U.S. Treasury Department; U.S. Department of Commerce; James W. Pillsbury, cochairman of the board, the Pillsbury Co., Minneapolis, Minn.; J. D. Herd, chairman of the board, Continental Insurance Co., New York, N.Y.; W. F. Lewis, chairman and president, Alco Products, Inc., New York, N.Y.; William M. Allen, president, the Boeing Co., Seattle, Wash.; Thomas H. Bivin, vice president, Great American Insurance Co., New York, N.Y.; Frank J. Nunlist, president, Worthington Corp., Harrison, N.J.; Howard C. Petersen, chairman of the board, the Fidelity Bank, Philadelphia, Pa.; Carl J. Gilbert, chairman of the executive committee, the Gillette Co., Boston, Mass.; Mr. Richard P. Cooley, president, Wells Fargo Bank, San Francisco, Calif.; Harold S. Geneen, president and chairman of the board, International Telephone and Tele-

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graph Corp., New York, N.Y.; E. W. Lewis, vice president, finance, Westinghouse Electric International Co., New York, N.Y.; James McCormack, chairman of the board, Communications Satellite Corp., Washington, D.C.; L. L. Morgan, executive vice president, Caterpillar Tractor Co., Peoria, Ill.; and Robert Olson, chairman of the board, Ford Motor Credit Co., Dearborn, Mich.; and David Rockefeller, Chase Manhattan Bank. Also Pfizer International, Inc., New York, N.Y.; U.S. Chamber of Commerce; the American Cotton Shippers Association; American Federation of Labor—Congress of Industrial Organizations; National Foreign Trade Council, Inc.; Banker's Association for Foreign Trade, representing 128 U.S. banks; and the National Association of Manufacturers.

Without objection, I will submit these letters and statements for the record at this point.

(The letters and statements referred to follow:)

DEPARTMENT OF STATE,
Washington, D.C., April 6, 1967.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for the views of the Department of State on the bill, H.R. 6649, to amend the Export-Import Bank Act of 1945, as amended, to extend for 5 years the period within which the bank is authorized to exercise its functions, and for other purposes.

We strongly support the draft bill in its entirety. We believe that extending the charter of the bank for an additional 5 years will prove very beneficial to our balance of payments as well as to our foreign relations. We also consider the provisions for an increase in the bank's over-all lending authority and for additional authority to issue insurance and guarantees to be reasonable.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely yours,

WILLIAM B. MACOMBER, Jr.,
Assistant Secretary for Congressional Relations.

U.S. TREASURY DEPARTMENT,
Washington, D.C. April 7, 1967.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 6649, "To amend the Export-Import Bank Act of 1945, as amended, to shorten the name of the Bank, to extend for 5 years the period within which the Bank is authorized to exercise its functions, to increase the Bank's lending authority and its authority to issue, against fractional reserves, export credit insurance and guarantees, and for other purposes."

The bill would extend from June 30, 1968, to June 30, 1973, the Bank's authority to exercise its functions. The Bank's authority to make loans and to issue guarantees and insurance would be increased from $9 billion to $13.5 billion. The bill would also increase from $2 billion to $3.5 billion the Bank's authority to issue export credit insurance and guarantees against fractional reserves.

The Treasury Department recommends the enactment of the proposed legislation.

The Department was advised by the Bureau of the Budget that there was no objection from the standpoint of the Administration's program to the submission of an identical report to the Senate Committee on Banking and Currency on S. 1155, an identical bill.

Sincerely yours,

(S) Fred B. Smith,
FRED B. SMITH,
General Counsel.

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GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., April 10, 1967.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for the views of this Department concerning H.R. 6649, a bill to amend the Export-Import Bank Act of 1945, as amended, to shorten the name of the Bank, to extend for 5 years the period within which the Bank is authorized to exercise its functions, to increase the Bank's lending authority and its authority to issue, against fractional reserves, export credit insurance and guarantees, and for other purposes.

The bill proposes to extend the legislative authority of the Bank, which is due to expire on June 30, 1968, for a 5-year period to June 30, 1973; to increase to $13.5 billion the present overall $9 billion authority of the Bank to lend, guarantee, and insure; and, within the overall authority, to increase to $3.5 billion the present $2 billion specific limitation on the issuance, against fractional reserves, of export credit insurance and guarantees. The bill would also shorten the name of the Bank and amend the pay and travel allowance of the Bank's Advisory Committee. This Department has no direct interest in the latter two proposals and does not offer any comment thereon.

From the establishment of the Bank in 1934 through FY 1966, the Bank has assisted American businessmen by providing more than $16 billion in export financing. The Bank's programs have included direct credits to finance U.S. exports, guarantees of commercial bank loans that finance U.S. exports, and insurance of the export receivables of individual exporters against risk of defaults. These programs have enabled U.S. exporters to offer competitive credit terms to foreign buyers. Both large and small exporters have participated in the Bank's programs.

In assisting export sales that ordinarily might not otherwise occur, the Bank's programs have a favorable impact on the U.S. balance-of-payments. This impact in fiscal year 1966 was estimated by the Bank in its Annual Report to the Congress to approximate $1.5 billion. Thus, the Bank's programs comprise an integral part of the Government's efforts to correct the current balance of payments deficit, and this Department considers it important that they continue on an uninterrupted basis.

The legislative authority for the above-mentioned programs is due to expire on June 30, 1968. It appears desirable to seek renewal of the authority at the present time, however, in order to avoid any lapse such as occurred for a 2-month period in 1963. A lapse would require suspension of the Bank's programs and would adversely affect efforts to correct the current balance-of-payments deficit.

Early enactment of this bill would also provide the Bank with the expanded authority to lend, guarantee and insure that is expected to be needed in the near future. The Bank estimates that at current levels of activity its authority may be entirely committeed before June 30, 1968. Moreover, before the Bank may commence to consider new applications for the Bank's resources, it is of course necessary that uncommitted authority be available. Since significant lead-time may be required for the careful review of applications and negotiation of loans and other commitments, it is essential for the continuation of the Bank's programs on an even and uninterrupted basis that the Bank's uncommitted authority be replenished soon. While the Department of Commerce defers to the Bank as to the estimated future level of the Bank's activity, the Department would add that the Bank's requirements and activity over the long-term could be expected to increase parallel with the anticipated growth of U.S. exports. We therefore consider that increases in the Bank's authority to lend, guarantee, and insure are appropriate; and we support the Bank's request for early implementation of the proposed increases.

In view of the above considerations, the Department of Commerce recommends the enactment of this bill at an early date.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of our report to the Congress from the standpoint of the administration's program.

Sincerely,

ROBERT E. GILES, *General Counsel.*

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THE CONTINENTAL INSURANCE CO.,
New York, N.Y., April 3, 1967.

Re H.R. 6649–6650.

Hon. WRIGHT PATMAN,
Chairman, House Committee on Banking and Currency,
House Office Building, Washington, D.C.

MY DEAR CONGRESSMAN: From Memorial Day 1942 until July 1, 1948, I was acting as a vice president of the War Damage Corporation, subsidiary of the Reconstruction Finance Corporation, and in that capacity had occasion frequently to follow the fortunes of many bills in both the House and Senate in which either War Damage Corporation or RFC had more than a passing interest. I also learned that letters to Washington have a way of piling up, to the point where they have a tendency either to defeat their own purpose by sheer weight of numbers, or take on a pattern of uniformity which engenders suspicion of mass inspiration in the mind of the addressee.

Nevertheless, as a member of the Advisory Committee of the Export-Import Bank, I am taking the liberty of recording with you, and through you with your Committee, my observations on the value of the services being performed worldwide by the Export-Import Bank on behalf of the people of the United States.

I shall not attempt to get into the basic question of the sheer soundness of the operation as a banking function, which is self-evident, but will confine myself to a few convictions gained firsthand while on a business trip around the world with Mrs. Herd less than 18 months ago. One of the most gratifying aspects of this journey which embraced, among other places, the Philippines, Japan, Hong Kong, Australia and New Zealand, was the presence of American made planes of all types and vintages beginning with the DC3 and including its many successors, right up to the Boeing 720B, 320B and 727's, plus DC8's and DC9's.

While this does not represent by any means the whole scope of the fruits of Eximbank efforts, it is one of the more important tangible results apparent to the casual visitor. I know there are many others, probably of equal importance.

Incidentally, the Continental Insurance Companies are immediately interested in the functions and successes of the Foreign Credit Insurance Association and, at long last, feel that this, too, is beginning to find its proper niche in a purpose for which the Eximbank was originally launched.

The net of all of the above is an endorsement of the purpose of the captioned House resolution, which I hope will receive prompt enactment into law.

Sincerely,

J. V. HERD, *Chairman.*

THE PILLSBURY CO.,
Minneapolis, Minn., April 5, 1967.

Hon. WRIGHT PATMAN,
Chairman, House Committee on Banking and Currency,
Rayburn House Office Building, Washington, D.C.

MY DEAR MR. PATMAN: I understand that the House Banking and Currency Committee will soon consider proposed amendments to the charter of the Export-Import Bank (H.R. 6649 and 6650).

It is in the interest of the United States to extend the life of the Bank for 5 years and to increase its lending authority as well as its authority to issue guarantees and insurance.

I am privileged to be one of the nine members of the Bank's advisory committee. From this vantage point, I have become familiar with the operations and services of the Bank in financing trade of the United States. We on the advisory committee expect that our gains in exports in the future will come in industries where our technology gives us leadership—commercial jet aircraft, nuclear power components, and electronic communications equipment, to mention a few. The pending legislation would enable the Bank to meet these and other needs to finance trade of the United States for which funds cannot readily be found in the private market.

I urge your support for the proposed amendments to the statutory charter of the Export-Import Bank.

Sincerely yours,

PHILIP PILLSBURY.

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WORTHINGTON CORP.,
Harrison, N.J., April 6, 1967.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
U.S. House of Representatives, Washington, D.C.

DEAR MR. PATMAN: Within a few days your committee will be giving consideration to a proposed bill which would extend the life of the Export-Import Bank to June 30, 1973, and which would also increase their ceiling on outstanding loans, guarantees, and insurance to $13.5 billion.

As a major manufacturer with an export business that totaled over $75 million in 1966, we have firsthand knowledge of the excellent results which have been achieved by the Export-Import Bank in support of the foreign commerce of the United States. In dealing with customers in underdeveloped countries, we find that long-term credit is frequently necessary in order to meet foreign competition. In these situations, the guarantee program of the Export-Import Bank has been instrumental in financing transactions which otherwise would have been lost.

Not only has their program been of benefit to U.S. exporters, but it has promoted national goals around the world. This has been done through the medium of loans and guarantees which would have been made on a careful commercial basis at a profit to the U.S. Treasury.

I am sure that you are fully familiar with the outstanding record of the Export-Import Bank. May I urge that your committee give favorable consideration to the bill.

Sincerely yours,

FRANK J. NUNLIST, *President.*

ALCO PRODUCTS, INC.,
New York, April 6, 1967.

Hon. WRIGHT PATMAN,
Chairman of the Banking and Currency Committee of the House of Representatives, Washington, D.C.

DEAR SIR: There is a bill before your committee (H.R. 6649, 5560) proposing amendment of a major nature to the Export-Import Bank Act of 1945. This proposal extends the life of the Bank for 5 years to June 30, 1973 and increases the existing lending authority of the Bank to $13.5 billion. The latter includes increasing the Bank's authority to issue guarantees and insurance on a 25 percent fractional reseve basis from $2 billion to $3.5 billion.

It is the urgent wish of this company that the committee take favorable action on this proposal.

Alco Products, Inc. (formerly American Locomotive Co.) has manufactured and exported hundreds of millions of dollars worth of equipment with the assistance of the Export-Import Bank, since its inception. This assistance has been in the form of both direct loans to our foreign customers and the Bank's guarantee and insurance programs. Substantially all of this export business would have been impossible without the Bank's assistance.

Until recent years American manufacturers of our type products enjoyed advantages in price and delivery, but this has been changing. Foreign competitors ae quickly closing these gaps and they invariably offer medium and long term financing. In several recent instances involving substantial orders financing offered by foreign competitors was superior to ours.

Any action at this time that would restrict the lending capacity of the Export-Import Bank would be detrimental to this and many other U.S. exporters. The competition abroad is severe and without competitive financing it becomes impossible to sell capital equipment in most countries abroad. Approximately 60 percent of our main product (diesel electric locomotives) is provided by hundreds of outside suppliers from all over the United States, so that exports such as these benefit the general economy of the country.

In addition, it is obvious that any action that restricts the Bank's lending capacity will unfavorably affect our balance of payments.

We respectfully request favorable action.

Sincerely,

W. F. LEWIS, *Chairman and President.*

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WESTINGHOUSE ELECTRIC INTERNATIONAL CO.,
New York, N.Y., April 7, 1967.

Re H.R. 6649 and H.R. 6650.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: With reference to the draft bills now before your committee in connection with the proposed 5-year extension of the life of the Export-Import Bank and the increase in its lending authority, we believe that the bill is of vital importance to the domestic and foreign commerce of the United States.

In the light of our experience with the Bank since it first began operating, we think that the following points merit your consideration:

1. The Export-Import Bank by its charter is required to confine its lending and guarantee operations to those countries, ventures, and projects which offer reasonable assurances of repayment. It is thus the principal source of financing for countries which cannot attract commercial bank loans at reasonable rates or for long periods of time and which are not eligible for AID. Such countries, by their nature, are of prime importance as export markets because they possess reasonably sound economies with continued and increasing purchasing power.

2. Most of the developed nations have created agencies which work under exposure limits comparing favorably with those granted to the Export-Import Bank. As examples, Western Germany, through the Deutsche Revisions und Treuhand A/G, in conjunction with the Hermes Kreditversicherungs A/G, supports export credit up to a ceiling of DM17 billion (US$4.25 billion). The United Kingdom, through the Export Credits Guarantee Department of the Board of Trade, insures exports up to an overall exposure limit of £1.5 billion (US$4.2 billion). Japan, through the Export Insurance Section of the Ministry of International Trade and Industry (MITI), insures exports up to a limit of approximately Y2,000 billion (US$5.6 billion). Even Belgium's Office National du Ducroire (OND) has a statutory lending limit of 15 times the capital and general reserve of the corporation, thus providing a credit ceiling for that small country equivalent to US$345 million.

3. The Export-Import Bank's comparative efficiency is demonstrated by the fact that its huge volume of lending is carried out with a total staff of about 300, whereas the German Hermes organization has 550 employees and the British ECGD utilizes the services of approximately 1,000.

4. The Bank, as you are doubtless aware, has an enviable record of prudent credit judgment and has regularly returned a profit to the United States Treasury.

5. Since the Bank's operations are limited to financing goods and services of U.S. origin, the loan funds never leave the United States. The underlying exports, of course, create more long-term rather than immediate credits to the balance of payments, but the continuous inflow of funds from past loans is ample evidence of the long-range benefits of the Bank's activities. The credit effect during 1966 was, we believe, about $1.5 billion.

6. Any slowdown in the lending activities of the Bank due to lack of sufficient lending authority will have an immediately adverse effect on the capability of U.S. industry to bid on important business in the economically most desirable areas abroad. This may result not only in the loss of current and near-future exports but may involve the surrender to foreign competition of markets in which U.S. industry now holds a predominant position.

7. In large projects financed by the Bank, such as nuclear and conventional electric generating plants, our company purchases on an average of as much as 50 percent of the total contract price from subsuppliers in the United States. As many as 90 to 100 suppliers may thus be involved in any one project, and the importance of this type of business to our own domestic economy, as well as to that of our subsuppliers, cannot be overemphasized.

The ability of the Bank to continue to finance these large projects which increase very substantially each year in unit value as nuclear technology develops, will be seriously impaired unless the lending authorization is increased. For example, the Bank's share in financing a conventional steam turbine generating plant in Japan only 4 years ago was less than $20 million. For a nuclear plant today of roughly equivalent capacity but greatly improved efficiency the cost might well run to double that amount.

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In summary, it is our considered opinion that the continuation and expansion of the Export-Import Bank's operations is essential to the maintenance and expansion of U.S. foreign markets. The Bank does not constitute a drain on the resources of the Nation—on the contrary, it has both an immediate and long-range beneficial effect on the crucial balance-of-payments situation. It is efficiently and prudently managed, and it is needed to enable U.S. industry to compete on an even basis with the facilities extended by foreign governments to their manufacturers. It is, therefore, most respectfully urged that the bills pending before your committee be favorably recommended for the approval by the House of Representatives.

Very truly yours,

E. W. B. LEWIS,
Vice President, Finance.

INTERNATIONAL TELEPHONE & TELEGRAPH CORP.,
New York, N.Y., April 7, 1967.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. PATMAN: In view of the legislation now pending before the Congress which would provide several amendments to the Export-Import Bank Act of 1945, it seems timely and appropriate for me to express to you the high esteem in which International Telephone and Telegraph Corp. holds the Bank's basic principles as well as the manner in which Bank officials conduct their operations.

ITT has had, and I trust will continue to have, numerous opportunities to seek the support of the Export-Import Bank in connection with our sales abroad. It is most rewarding to work with a public institution which provides support to the private sector of our economy with such a clear understanding and appreciation of private enterprise's problems and requirements. Their outstanding services to our corporation, and to scores of other private businesses in the United States, deserve both appreciation and support. We are mindful, too, of the significant role the Export-Import Bank is playing in the U.S. balance-of-payments program, to which private corporations in the United States also have given substantial voluntary support.

In view of the very successful accomplishments to date of the Bank in meeting its goals to support private enterprise and the U.S. export effort, I sincerely recommend that you and your committee give favorable consideration to the proposed amendments to the Export-Import Bank Act, which will extend the Bank's charter for an additional 5 years and increase the ceiling on outstanding loans, guarantees, and insurance to the level of $13.5 billion requested by the Bank.

Sincerely yours,

HAROLD S. GENEEN.

THE GILLETTE CO.,
Boston, Mass., April 7, 1967.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
House of Representatives,
Washington, D.C.

DEAR MR. PATMAN: I write to record myself as supporting the legislation now pending before your committee to further amend the Export-Import Bank Act of 1945, as amended (H.R. 6649, H.R. 6650, S. 1115).

I am familiar with the functioning of the Bank, having served on its Advisory Committee at various times over the past 10 years, but am not currently serving in that capacity.

In my opinion the Bank is efficiently operated and performs effectively a most important function. I also am convinced that the need for the services it performs is constantly expanding and essential to the success of efforts to expand our exports. The Bank is to be commended for its readiness to adapt its procedures to changing conditions so as to permit its facilities to be used to their maximum potential, while at the same time safeguarding the taxpapers' interests by good credit practices.

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I sincerely believe that the proposed amendments are necessary and appropriate to permit this splendid institution to continue to perform outstanding services in the national interest.

Sincerely,

CARL J. GILBERT.

GREAT AMERICAN INSURANCE COMPANIES,
New York, NY., April 7, 1967.

Re proposed amendment to the Export-Import Bank Act of 1945, S. 1155 (H.R. 6650)

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee of the House of Representatives, Washington, D.C.

MY DEAR MR. CHAIRMAN: We wish to endorse and urge passage of the captioned bill. Export-Import Bank performs a service and function in the financing of U.S. exports that is irreplaceable. Its assistance to private commercial banks in financing exports is an indispensable part of our national foreign trade activity.

Approximately 60 prominent insurance companies are associated with Export-Import Bank in the Foreign Credit Insurance Association. Since its creation, this association has covered hundreds of thousands of shipments of U.S. goods and products amounting to nearly two and one-half billions of dollars of value in foreign trade. Export-Import Bank's assistance and advice in this important aid to U.S. exporters is, again, indispensable.

The amendments to the Export-Import Bank Act of 1945 as proposed by the bill in caption extending the life of the bank and increasing its lending authority are vital to the national effort to increase our exports, strengthen foreign trade, and improve our balance-of-payments position.

Sincerely yours,

THOMAS H. BIVIN, *Vice President.*

THE BOEING CO.,
Seattle, Wash., April 7, 1967.

Hon. WRIGHT PATMAN,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. PATMAN: I am writing in connection with the proposed legislation currently being considered by the Banking and Currency Committee to amend the statutory charter of the Export-Import Bank of Washington (H.R. 6649 and 6650). The principal features of this bill are to extend the charter of the Bank for 5 years (to June 30, 1973) and to increase its lending authority by 50 percent or $4.5 billion. The Bank has played an essential role in the financing of commercial jet transport aircraft and other industrial exports in the past. The prospective requirements for the type of financing being provided by the Bank will continue to grow.

The role that the Export-Import Bank has played in supporting the expansion of this country's exports was perhaps best demonstrated during 1966. Although the demand by foreign airlines for United States aircraft was growing rapidly, financing from the private sector by reason of the "tight money" situation was not available in many cases. In recognition of this problem, the Export-Import Bank made substantial commitments during 1966 which will support the export of U.S. jet transport aircraft and related equipment. Down payment requirements and manufacturer participation will result in the actual amounts loaned being substantially less than the aggregate sales value and the actul disbursement of funds will take place over a time period running into 1971.

However, as fine as the past record is, we are more concerned about the future. There is general agreement that a major consideration in solving this country's balance-of-payments problem lies in increasing the favorable balance of trade, and large jet aircraft represent one of the most rapidly growing segments of the export market. Since the beginning of the jet age in 1959, exports of large jets and spare parts have averaged about $300 million annually. Over the next 10 years, most forecasts show a potential for an annual average in the $1 billion area. The achievement of this potential will strain the capacity of the entire financial community, both public and private.

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In summary, the Export-Import Bank has been extremely helpful in the achievement of the dominant position of U.S. aircraft in the free world's commercial jet fleet. If we are to maintain this position, continued and increased Export-Import Bank financing must be made available. I therefore urge your committee to give favorable consideration to this proposed legislation.

Respectfully,

WILLIAM M. ALLEN, *President.*

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., April 7, 1967.

Hon. WRIGHT PATMAN,
Chairman, House Banking and Currency Committee,
U.S. House of Representatives, Washington, D.C.

DEAR MR. PATMAN: The Chamber of Commerce of the United States has long supported the purposes and objectives of the Export-Import Bank, and has viewed with favor its effective role in promoting U.S. exports and in financing economic development projects abroad through loans to U.S. and foreign firms and to foreign countries.

The national chamber supports H.R. 6649 and H.R. 6650 the bills to amend the Export-Import Bank Act. The bills would extend the life of the Bank for 5 years to June 30, 1973, and increase the ceiling on outstanding loans, guarantees, and insurance to $13.5 billion, including an increase in authority to issue guarantees and insurance on a 25-percent fractional reserve basis to $3.5 billion.

The Bank requires repayment in dollars. Therefore, its economic development loans are made for projects which help the borrowing country to earn dollars. Credits available to foreign countries assist the recipient during temporary dollar shortages, thereby maintaining the flow of U.S. goods.

The Bank's guarantee program to assist private commercial bank financing of exports and its part in the program of the Foreign Credit Insurance Association, whereby an exporter can obtain insurance against risks of loss on both short-term and medium-term financing, have been carried out in a credible manner, utilizing private institutions to the maximum.

Extension of the life of the Bank and an increase in its lending authority will further serve the national interest by helping the U.S. maintain its share of foreign markets and benefit or balance of payments situation.

The record of the Export-Import Bank shows that it is serving its statutory purposes of financing U.S. trade for which funds cannot readily be found in the private market and is being administered efficiently and in the national interest of the United States.

Cordially,

DON A. GOODALL.

COMMUNICATIONS SATELLITE CORP.,
Washington, D.C., April 10, 1967.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: We at Comsat are familiar with the activities and objectives of the Export-Import Bank of Washington and believe they have contributed greatly to the support of this country's foreign trade. We hope that the Export-Import Bank will be authorized to continue its role of assisting the United States to finance its exports.

If, as expected, the global communications satellite system is to expand to a total of more than 40 earth stations during the next 3 years, it will be vitally important to have available a source of funds to finance the construction of these stations which range in cost from $3 million to $7 million.

The arrangement made by Eximbank with Spain permitted that country to proceed with the construction of two earth stations—one in Madrid, the other in the Canary Islands. In addition, Eximbank is in the process of finalizing a loan to Thailand for an earth station, and has drawn up letters of intent for Chile and Mexico. A number of other countries are in contact with the Bank, and it is our understanding that requests for financing additional earth stations will receive favorable consideration in those cases where the loans offer a reasonable assurance of repayment.

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We are in accord with the principle that the Export-Import Bank should not attempt to compete with private capital but, rather, should make funds available at a fee commensurate with the inherent risk in those cases where private capital is not yet willing to do so.

In summary, we believe it would be in the best interests of the United States for the charter of the Export-Import Bank to be extended for 5 years and its lending, guaranteeing, and insuring authority to be increased from the present limitation of $9 billion to a total of $13.5 billion.

Sincerely,

JAMES MCCORMACK.

FORD MOTOR CREDIT CO.,
Dearborn, Mich., May 1, 1967.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Ford Motor Credit Co. holds a short-term—comprehensive export credit insurance policy issued by the Foreign Credit Insurance Association (FCIA) and the Export-Import Bank of Washington (Eximbank) under which Eximbank insures a substantial part of the political risks and reinsures a portion of the commercial risks with respect to short-term foreign sales on credit. In addition, from time to time, for transactions requiring medium-term credit, we have obtained specific FCIA and Eximbank medium term—comprehensive export credit insurance cover.

These policies have encouraged us to expand substantially our export financing volume through wholesale financing for qualified dealers handling U.S. Ford-built products principally in Latin America, the Middle East, and East Asia. Lacking availability of the Eximbank-assisted credit insurance system, export sales represented by some U.S. Ford-built products assuredly would be gained by foreign competitors who take advantage of credit insurance systems offered by their respective governments. As a consequence, the contribution which export sales of such products make to our domestic economy and to the favorable side of our balance of payments would be lost.

A continuing program of guarantees and export credit insurance for U.S. exporters and financial institutions, in our view, is an essential element of U.S. policy. We support fully the bills, H.R. 6649 and H.R. 6650, being considered by your committee to extend the life of the Export-Import Bank and to increase the Bank's lending authority and its authority to issue insurance and guarantees against fractional reserves.

Sincerely yours,

ROBERT S. OLSON.

INTERNATIONAL AFFAIRS DEPARTMENT,
NATIONAL ASSOCIATION OF MANUFACTURERS,
New York, N.Y., April 12, 1967.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee of the House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: The National Association of Manufacturers, through its International Economic Affairs Committee, in which I serve as chairman of the export expansion program group, is pleased to submit for the record its views supporting H.R. 6649 and H.R. 6650 now before you.

The support and encouragement our association has expressed over the years for the Export-Import Bank is described in the attached statement which stands as the official policy of the association which represents 15,000 member companies. We ask that this official statement also be included in the record of your hearings.

We note the major provisions of the measures before you providing for the extension of the life of the Bank for 5 years; increasing the Bank's lending authority from a present limitation of $9 to $13.5 billion without increase in borrowing authority; and an increase within this overall ceiling of the authority to provide guarantees and insurance up to $3.5 billion from the existing $2 billion limitation.

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Also, we note the two relatively minor changes pertaining to a change in the legal name of the Bank and to per diem allowances for the members of the Bank's Advisory Committee.

Our association finds these requests reasonable and consistent with the purposes of the Export-Import Bank and in no way in conflict with any of the views of the National Association of Manufacturers, as expressed in its basic policies.

The business community applauds the recent action of the Export-Import Bank in assisting commercial banks by assuring them of the availability of "rediscount" funds for portions of their export credits, thus facilitating increased export financing.

For the above reasons, our association supports the legislation before you and recommends its adoption by the Congress.

Sincerely yours,

PAUL DIETZ,
Chairman, Export Expansion Program Group, International Economic Affairs Committee.

NATIONAL ASSOCIATION OF MANUFACTURERS

(From Manual of Official Policy Positions)

EXPORT-IMPORT BANK

The Export-Import Bank under present world conditions continues to serve a useful purpose to American industry in carrying out its statutory objective in aiding in financing and facilitatng the foreign trade of the United States. As an exclusively American institution, the Export-Import Bank can continue to serve an important interest of the United States and of domestic industry in this critical period in world affairs by assisting in the development or expansion abroad of sources of strategic and essential materials required for defense or industrial uses, and with development projects which will improve the economy of foreign countries and their trade with the United States.

The association believes that:

1. A basic tenet of Export-Import Bank policy is and should continue to be the encouragement of private enterprise. Its extensions of credit should not promote the displacement of private by public operations. The Bank should continue its efforts to secure the maximum participation of private capital in its lending activities.

2. The Bank's authority to guarantee loans made by domestic commercial banks and other private agencies should be continued and utilized to the extent that the resources of the commercial banks and other private agencies make possible.

3. The Bank's operations should be directed toward encouraging the maximum participation of private capital without government guarantees; guarantees should be used to encourage the participation of private funds which would not otherwise be forthcoming. The Bank's criterion in credit extension, whether through making loans or through guaranteeing in whole or in part the loans of commercial banks or other private agencies, should be that the proposal in question meets sound standards of lending and constructive purpose in an international sense.

4. It is essential that any extension of credit by the Bank should bear a considered and prudent relationship to the future ability of the borrower to generate funds for repayment, including the question of foreign exchange availability.

The Export-Import Bank should function as a strong independent agency of our Government, serving the exporters and importers of this country within the framework of the foreign economic policy of the United States.

CATERPILLAR TRACTOR CO.,
Peoria, Ill., April 14, 1967.

Hon. WRIGHT PATMAN,
Chairman, House Banking and Currency Committee,
House Office Building, Washington, D.C.:

Caterpillar Tractor Co., second largest exporter in the United States, supports amendments proposed in H.R. 6649, 6650 to extend life of Eximbank, to increase

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its lending authority and authority to issue guarantees and insurance. We feel these amendments will allow the Bank to be more effective, help our economy and our international balance of payments.

Incidentally, Caterpillar's contribution to a more favorable balance of payments in 1966 amounted to $444 million. Sales in 1966 to customers outside the United States were $628.4 million or 41 percent of total sales. More than 75 percent of these sales consisted of products manufactured in the United States, and exported to customers. A majority of these sales require financing to be offered. Eximbank has been a principal source of funds through actual loans or guarantees to commercial banks. This has been extremely important since commercial banks have been required since December 31, 1964, to restrict their loans to customers outside the United States. As an assist to increasing export sales we request a favorable vote of the House bills assigned to your committee.

L. L. MORGAN,
Executive Vice President.

PFIZER INTERNATIONAL, INC.,
NEW YORK, N.Y., *April 26, 1967.*

Hon. WRIGHT PATMAN,
Chairman, House Committee on Banking and Currency,
U.S. House of Representatives, Washington, D.C.:

I support H.R. 6649 extending the lending operations of the Export-Import Bank for additional 5 years. In my view the Bank's role in encouraging exports is of particular importance at this time when the Nation is experiencing balance-of-payments problems and growing financial demands on the Bank justify increasing its loan guarantee and insurance capacity from $9 to $13.5 billion. Further it seems to me that the Fiat transaction is irrelevant to the proposed authorization. The Eximbank makes neither diplomatic nor export control policy. Moreover under the strict safeguards and review procedures of the Export Control Act I am sure that every item under the Fiat proposal will be adequately scrutinized.

RICHARD C. FENTON,
President and Chairman of the Board.

WELLS FARGO BANK,
San Francisco, Calif., April 6, 1967.

Hon. WRIGHT PATMAN,
Chairman of the Banking and Currency Committee,
House of Representatives,
Washington, D.C.

DEAR MR. PATMAN: In connection with the proposed legislation pending in the Congress to extend the life of the Export-Import Bank of Washington to June 30, 1973 (S. 1155; H.R. 6649, 6650), we concur, without reservation, in its various provisions.

The tremendous impetus which the Eximbank's operations give to U.S. exports is daily evident to us in our international operations. This effect on our country's balance of payments is felt far beyond even the obvious statistical evidence. Eximbank's loan and guarantee programs provide a stimulus to our export production which cannot readily be supported by available, normal, commercial and banking channels.

Certainly our national interest requires the competitive tools provided by these programs. Our export customers, to an ever greater extent, are meeting the intensification of worldwide trade challenges, but they must be granted every edge within the Nation's capability.

The specific provisions contained in the proposed bills, and particularly those relating to increases in the Bank's lending authority and its authority to issue guarantees, would appear to be most suitable under existing conditions. We consider it imperative that the Eximbank's operations continue to receive the utmost support of the Congress in the implementation of its activities.

Sincerely,

RICHARD P. COOLEY, *President.*

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THE FIDELITY BANK,
Philadelphia, Pa., April 7, 1967.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This letter is in support of the proposed amendment to the Export-Import Bank Act of 1945 (H.R. 6649, 6650) which is presently before your committe. I am writing in my private capacity, although I also serve presently as Chairman of the Advisory Committee of the Export-Import Bank.

The proposed amendment is intended primarily to extend for 5 years the period within which the Bank is authorized to operate, and to increase the Bank's lending authority, as well as its authority to issue export credit insurance and guarantees.

The bill is consistent with, and an integral part of, the administration's long-range program for the U.S. balance of payments. The legislation does not provide for any additional borrowing authority. It does, however, permit expansion of the Bank's lending authority; namely, the amount of commitments for loans, guarantees and insurance which the Bank has outstanding.

These commitments are of vital importance not only to our domestic economy, but to the financing of U.S. exports. At the same time, the loans are complementary to, not competitive with, private capital. The loans are to foreign borrowers who then can finance additional capital goods purchases in the United States. The guarantee program is designed to aid bank export financing. In addition, the Eximbank has recently started a discount program by which banks may borrow against their foreign obligations generated from U.S. exports. The results of these programs have been highly successful not only directly to the Bank but also, more importantly, in stimulating U.S. export business.

The present bill would continue the operations of the Bank through June 30, 1973. It would also raise the Bank's lending authority by $4.5 billion to a level of $13.5 billion. In view of the increased levels of export business and the desirability of further stimulation for both the domestic economy and our balance-of-payments position, I believe such an increase is both appropriate and highly desirable. The Bank's record in granting loans clearly indicates that the increased limit would be used judiciously in terms of both commercial and national objectives.

I would strongly urge that you and your committee give favorable consideration to the legislation. In expressing these views, I know I speak for all the members of the Eximbank Advisory Committee.

Sincerely,

HOWARD C. PETERSEN.

THE CHASE MANHATTAN BANK,
New York, N.Y., April 10, 1967.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to express to the committee Chase Manhattan's support for your bill, H.R. 6649, which would extend for an additional 5 years the life of the Export-Import Bank, increase its ceiling on loans and increase the amount of the guarantees and insurance which it may issue.

Since its inception, the Export-Import Bank has been a vital adjunct to the financial facilities provided by private enterprise for the promotion of our foreign trade on a sound economic basis. The increase in the Bank's authorizations which have accompanied each extension of the Bank's term has increased the Bank's usefulness to the foreign trade of the United States and the significant support it has given to the credit side of U.S. balance of payments.

Each new program instituted by the Bank, in particular the institution of risk insurance through the Foreign Credit Insurance Association and the system of support for commercial bank loans to exporters through Eximbank guarantees, has demonstrated the ability of the Bank to work with and anticipate the needs

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of the business community in fulfilling its functions. On September 1, 1966, Export-Import Bank initiated a program under which it lends to commercial banks against their portfolio of certain export obligations. It is expected that this program will substantially increase the opportunities of exporters to finance sales abroad of U.S. goods through the cooperative efforts of private commercial banks and the Bank.

In our view Export-Import Bank has made a very substantial contribution to export trade and has cooperated in commendable fashion with private financial institutions in furthering the foreign commerce of the United States. We respectfully urge, therefore, that H.R. 6649 receive the favorable consideration of your committee and of the Congress.

Sincerely,

DAVID ROCKEFELLER.

AMERICAN COTTON SHIPPERS ASSOCIATION,
Memphis, Tenn., April 5, 1967.

Re H.R. 6649.

Hon. WRIGHT PATMAN,
Chairman, House Banking and Currency Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: As president of the American Cotton Shippers Association, and on behalf of its members who export most of the cotton from the United States, I welcome the opportunity of supporting your bill extending the life of the Export-Import Bank and increasing its lending and guarantee authority.

Since its establishment in 1934 the Export-Import Bank has served a vital purpose in financing the exportation of cotton. While in the last few years Public Law 480 financing by the Department of Agriculture has reduced the volume of direct Export-Import Bank financing, the Bank's loans have still been helpful, indeed essential, to our exports. We believe, moreover, that as the volume of Public Law 480 aid financing declines, as we anticipate it must, the Export-Import Bank should be in position to expand its cotton financing.

Cotton is not out of the woods yet. True, the surplus has been reduced by a drastic and expensive cut in production, but with the price for U.S. cotton still pegged, we need every possible aid to effect the exportation of an amount of cotton needed to make cotton once again a successful commercial crop.

The Export-Import Bank has always listened sympathetically to any request for a sound cotton loan, and it, and the cotton industry, have been proud of its record of having had no losses out of loans, guarantees and credits exceeding $1 billion.

In addition to these direct cotton loans, however, we should like to emphasize other activities of the Bank which have been helpful. For instance, at the end of World War II, it financed the American Cotton Supply Corp., which made cotton available to occupied Germany and utilized the textile proceeds for payment. Its first guarantees against confiscation and war risk were worked out on consigned cotton and, as you know, these have been expanded to a broad insurance and export credit guarantee program. Our experience has been that if there is a need for credit to move cotton, the Export-Import Bank will work hard to devise a sound and reasonable plan which will accomplish the purpose. The importance of these facilities cannot be underestimated. We particularly commend the recent discount loan program of the Bank designed to assist commercial banks in expanding their own export credit programs.

We feel the loan and earnings record of the Bank justifies the requested increase in its authority, and that there is a substantial need for its continued and expanded authority.

Yours sincerely,

EDWARD W. COOK, *President.*

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., April 7, 1967.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency, House of Representatives,
Washington, D.C.

MY DEAR CONGRESSMAN PATMAN: The National Foreign Trade Council favors the early enactment of legislation (H.R. 6649 and H.R. 6650) currently under

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consideration by your committee, which would amend the Export-Import Bank of 1945. It is our understanding that the primary purpose of this legislation is to extend for 5 years the period within which the Bank is authorized to exercise its functions, and to increase its lending authority and its authority to issue, against fractional reserves, export credit insurance and guarantees.

Since the vital need of such an institution as the Export-Import Bank was first urged at the 20th National Foreign Trade Convention in 1933, the National Foreign Trade Council has consistently supported the efforts of the Export-Import Bank to cooperate with and assist private business in developing and expanding the foreign trade of the United States. If this trade is to continue to grow and the United States is to maintain—as it must—its position in the markets of the world, it is essential that the Bank be able to meet effectively the new and added demands which will be made upon it by the business community.

The 53d National Foreign Trade Convention, meeting in New York last November, with nearly 2,000 foreign traders registered from throughout the United States, specifically welcomed the new and liberalized programs announced earlier in the year by the Export-Import Bank and the Foreign Credit Insurance Association. However, Export-Import Bank facilities and operations unfortunately have not always kept pace with the evolving needs of the foreign trader. Also, in part as a result of the guideline restrictions on foreign lending and the temporary monetary situation, the Bank has of late taken on a substantial volume of loans that normally would and should be carried by the commercial banks. Therefore, in endorsing this legislation, the National Foreign Trade Council would urge the Export-Import Bank to be constantly alert to the changing needs of business and flexible and prompt in meeting them, and would also point out the importance it attaches to the fact that the statute under which the Export-Import Bank operates requires that the Bank supplement and encourage, and not compete with, private capital.

It is respectfully requested that this communication be made a part of the record of the hearings of your committee.

Sincerely yours,

E. S. HOGLUND, *Chairman.*

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., April 10, 1967.

Hon. WRIGHT PATMAN,
Chairman, House Banking and Currency Committee,
New Senate Office Building,
Washington, D.C.

DEAR CONGRESSMAN PATMAN: The AFL–CIO strongly supports enactment of H.R. 6649, to amend the Export-Import Act.

This bill, which you introduced, would extend for 5 years the life of the Export-Import Bank, whose services have promoted the expansion of trade with other countries. The bill would also increase the Export-Import Bank's lending authority, which includes authority on guarantees and insurance.

In general, the bill would strengthen the Bank's operations by permitting greater lending, guarantee and insuring power, in keeping with changing needs. It would enable the Bank to continue to play a significant role in the expansion of U.S. trade.

The AFL–CIO urges enactment of this bill as part of its consistent support of effective measures to expand U.S. trade with other countries and to strengthen America's international balance-of-payments position. American jobs and American business are bolstered by expanded trade. Moreover, friendly foreign nations benefit from economic development projects that are assisted by the Export-Import Bank's operations.

The Bank has served our Nation well, since it was created in 1934, through its assistance in financing and facilitating U.S. overseas trade. It has continued not only to assist in the expansion of U.S. trade but also to pay dividends to the U.S. Treasury.

This unique Government institution has helped American manufacturers and exporters to finance the sale of industrial and agricultural equipment to other countries. Thousands of American businesses have received foreign orders for American goods because of the operations of the Bank. The importance of such activities on employment is a major concern of organized labor.

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The AFL–CIO is also concerned with aiding less developed nations to improve their economic strength. The Bank's loans have helped such developing countries to finance irrigation and water supply projects, as well as other necessary infrastructure and basic economic underpinnings.

For these reasons, the AFL–CIO supports H.R. 6649 and urges its enactment.

Sincerely,

NAT GOLDFINGER,
Director, Department of Research.

BANKERS' ASSOCIATION FOR FOREIGN TRADE,
April 7, 1967.

Hon. WRIGHT PATMAN,
Chairman of the House Banking and Currency Committee,
House of Representatives,
Washington, D.C.

DEAR MR. PATMAN: It is our understanding that legislation, referred to as S. 1155; H.R. 6649, 6650, will be considered by your committee early next week and embodies as its purpose an extension of the life of the Export-Import Bank for 5 years and an increase in the ceiling on outstanding loans, guarantees, and insurance to $13,500 million.

The Bankers' Association for Foreign Trade, representing the 128 U.S. banks shown on the enclosed list, met in convention at Boca Raton, Fla., at the end of April 1966, and adopted a resolution supporting the programs of the Export-Import Bank as a necessary means for pooling credit and political risks which individual exporters and banks cannot in prudence bear.

Therefore, on behalf of the Bankers' Association for Foreign Trade, I respectfully but strongly urge your committee to give prompt and favorable attention to the above cited bill when it comes before you. The continued life and activity of the Export-Import Bank is essential to help provide our exporters with sound methods of financing, both short and long term, competitive with those available to exporters of other countries. We look forward to continuing to work with the Chairman and management of the Export-Import Bank, in cooperating with them to make their facilities useful to exporters and, furthermore, to assure maximum utilizations of the resources of the private sector.

Very truly yours,

WILLIAM F. RAY, *President.*

U.S. MEMBERS BANKERS' ASSOCIATION FOR FOREIGN TRADE, JULY 21, 1966

Akron, Ohio: First National Bank of Akron.
Atlanta, Ga.
The Citizens & Southern National Bank.
First National Bank of Atlanta.
The Trust Company of Georgia.
Baltimore, Md.
First National Bank of Maryland.
Maryland National Bank.
Union Trust Company of Maryland.
Boston, Mass.
First National Bank of Boston.
The National Shawmut Bank of Boston.
The New England Merchants National Bank of Boston.
State Street Bank & Trust Co.
Buffalo, N.Y.
Manufacturers & Traders Trust Co.
Marine Midland Trust Co. of Western New York.
Charlotte, N.C.: North Carolina National Bank.
Chicago, Ill.
American National Bank & Trust Co. of Chicago.
Central National Bank of Chicago.
Continental Illinois National Bank & Trust Co. of Chicago.
First National Bank of Chicago.
Harris Trust & Savings Bank.
LaSalle National Bank.
Northern Trust Co.

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Cincinnati, Ohio
The Central Trust Co.
Fifth-Third Union Trust Co.
First National Bank of Cincinnati.
Cleveland, Ohio
Central National Bank of Cleveland.
The Cleveland Trust Co.
The National City Bank of Cleveland.
Society National Bank of Cleveland.
Union Commerce Bank.
Dallas, Tex.:
First National Bank in Dallas.
Mercantile National Bank at Dallas.
Republic National Bank of Dallas.
Denver, Colo.: Denver U.S. National Bank.
Detroit, Mich.:
Bank of the Commonwealth.
City National Bank of Detroit.
Detroit Bank & Trust.
Manufacturers National Bank of Detroit.
National Bank of Detroit.
Fort Worth, Tex.:
First National Bank of Fort Worth.
Fort Worth National Bank.
Hartford, Conn.:
Connecticut Bank & Trust Co.
Hartford National Bank & Trust Co.
Honolulu, Hawaii:
Bank of Hawaii.
The First National Bank of Hawaii.
Houston, Tex.:
Bank of the Southwest National Association.
The First City National Bank of Houston.
Texas National Bank of Comerce of Houston.
Indianapolis, Ind.:
American Fletcher National Bank & Trust Co.
The Indiana National Bank of Indianapolis.
Kansas City, Mo.:
City National Bank & Trust Co.
Commerce Trust Co.
First National Bank.
Los Angeles, Calif.:
First Western Bank & Trust Co.
Manufacturers Bank.
Security First National Bank.
Union Bank.
United California Bank.
Memphis, Tenn.:
First National Bank of Memphis.
National Bank of Comerce in Memphis.
Union Planters National Bank.
Miami, Fla.: The First National Bank of Miami.
Milwaukee, Wis.:
First Wisconsin National Bank of Milwaukee.
Marshall & Ilsley Bank.
Minneapolis, Minn.
First National Bank of Mineapolis.
Northwestern National Bank of Minneapolis.
Mobile, Ala.
First National Bank of Mobile.
Merchants National Bank of Mobile.
Newark, N.J.: National Newark & Essex Banking Co.
New Orleans, La.
Hibernia National Bank in New Orleans.
National American Bank of New Orleans.
The National Bank of Commerce in New Orleans.
Whitney National Bank of New Orleans.

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New York, N.Y.:
American Express Co.
The Bank of New York.
Bankers Trust Co.
Brown Brothers Harriman & Co.
The Chase Manhattan Bank.
Chemical Bank New York Trust Co.
Empire Trust Co.
The First National City Bank.
Franklin National Bank.
Irving Trust Co.
Laidlaw & Co.
Manufacturers Hanover Trust Co.
Marine Midland Grace Trust Co. of New York.
The Meadow Brook National Bank.
Morgan Guaranty Trust Co. of New York.
Sterling National Bank & Trust Co.
Norfolk, Va.: Virginia National Bank.
Oakland, Calif.: Central Valley National Bank.
Omaha, Nebr.: The Omaha National Bank.
Paterson, N.J.: New Jersey Bank & Trust Co.
Philadelphia, Pa.:
Central-Penn National Bank of Philadelphia.
Fidelity-Philadelphia Trust Co.
First Pennsylvania Banking & Trust Co.
Girard Trust Bank.
The Philadelphia National Bank.
Provident National Bank.
Phoenix, Ariz.:
First National Bank of Arizona.
Valley National Bank.
Pittsburgh, Pa.:
Mellon National Bank & Trust Co.
Pittsburgh National Bank.
Ponce, P.R.:
Banco Credito y Ahorro Ponceno.
Banco de Ponce.
Portland, Oreg.: The First National Bank of Oregon.
Providence, R.I.:
Industrial National Bank of Rhode Island.
Rhode Island Hospital Trust Co.
St. Louis, Mo.:
First National Bank in St. Louis.
Mercantile Trust Co.
San Diego, Calif.: First National Bank of San Diego.
San Francisco, Calif.:
Bank of America, N.T. & S.A.
Bank of California, N.A.
Crocker-Citizens National Bank.
Pacific National Bank of San Francisco.
Wells Fargo Bank.
San Juan, P.R.: Banco Popular de Puerto Rico.
Seattle, Wash.:
The National Bank of Commerce of Seattle.
Pacific National Bank of Seattle.
Peoples National Bank of Washington.
Seattle-First National Bank.
Tacoma, Wash.: National Bank of Washington.
Tampa, Fla.: Marine Bank & Trust Co.
Toledo, Ohio: First National Bank of Toledo.
Tuscon, Ariz.: Southern Arizona Bank & Trust Co.
Washington, D.C.:
American Security & Trust Co.
The Riggs National Bank of Washington, D.C.
Winston-Salem, N.C.; Wachovia Bank & Trust Co.
Worcester, Mass.: Worcester County National Bank.

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The CHAIRMAN. President Linder, on behalf of all the members of the Committee on Banking and Currency, I would like to welcome you this morning and ask you to give us your statement or summarize it, whichever your would prefer.

Mr. WIDNALL. Mr. Chairman, would you yield to me so I might make a preliminary statement on behalf of the minority?

The CHAIRMAN. Certainly, go ahead.

Mr. WIDNALL. We, too, welcome you before the committee today and we always appreciate your coming up. You have done a very fine job in running the Export-Import Bank.

Mr. Chairman, it is my understanding that it is our plan to hold hearings on the Exim bill this morning only and report the bill to the House.

The CHAIRMAN. That is not entirely correct. If we get through this morning, we will, of course, have an executive session to pass on the bill. If we do not get through we will take such time as may be necessary to fairly consider this legislation.

Mr. WIDNALL. May I continue, Mr. Chairman?

Similarly, hearings will be held tomorrow morning before the Senate Banking and Currency Committee, presumably 1-day hearings.

I think the administration is making a serious mistake. In this bill we are extending the authority of the Bank to continue its operations for an additional 5 years at a substantially increased lending level. The present authority of the Bank extends through June 30 of next year, casting doubt as to the need for such expeditious action. Recently, some serious questions have been raised concerning Exim's operations, most of which can and should be answered in detail by those committees of Congress which have jurisdiction over Exim's operations. Personally, I think the Bank's record is excellent in that it has stimulated billions of additional U.S. exports which would otherwise have gone to foreign competitors. Unfortunately, when influential financial newspapers such as Barron's make serious charges against the quality and scope of its operations, the opportunity to inspect these charges is during hearings such as this, which occur only once in every 5 years. More important, however, is the fact that Exim has been asked by the President of the United States to participate in by far the largest single East-West trade undertaken in history. Clearly, the proposed Fiat deal is extremely controversial and poses numerous questions of judgment and delicacy, touching upon an important aspect of our Nation's foreign policy. Although four members of our committee have studied this thoroughly and reported back in written form to the committee, I doubt whether a 1-day hearing can answer even a few of the major questions involved in this undertaking. Speaking for myself, I have not as yet made up my mind whether the Eximbank should be permitted to extend up to $50 million in credits, with the Soviet Union as the ultimate beneficiary. What troubles me is that I don't believe a couple of hours' testimony is time enough for most of us to make a studied judgment when this bill reaches the floor. We will, undoubtedly, be asked to amend it in such form as to prohibit Exim participation in the Fiat deal.

It matters not whether those of us who serve on the committee support or oppose this huge undertaking. What does matter is that members of this committee should be in a position to be better ac-

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quainted with all aspects of this proposal than any other Members of the House. With a brief 1-day hearing, I doubt that we can collectively maintain our leadership on the floor with regard to the controversy that will develop.

It is still not too late to rectify this problem. Mr. Chairman, I respectfully urge that this legislation be submitted to the Subcommittee on International Trade for extensive hearings.

The CHAIRMAN. May I ask you, Mr. Widnall, do you not think that the question you have raised would properly come under the Export Control Act, that we renewed in the last Congress, rather than this particular Export-Import Bank Act? Of course, the Export Control Act could be amended at any time.

Mr. WIDNALL. In answer, Mr. Chairman, may I just say that if this was a simple extension of 5 years, it would be no problem. There are authorizations involved and limits on export guarantees which are quite sizable and which would involve more than the simple extension.

The CHAIRMAN. I believe that the record will show, Mr. Widnall, that it has been increased every time it has been brought up for consideration and extension. Of course, at first, it came into being by Executive order of President Franklin D. Roosevelt, but later was chartered by the Congress, in 1945. But every time it has come up for renewal it has been increased because it has been doing a tremendous job and recognition was given for the good job that was done. I do not believe there has been much opposition in the past.

Mr. WIDNALL. Will the chairman yield to me?

The CHAIRMAN. Yes.

Mr. WIDNALL. I do not believe there has been much, if any, opposition to the extension of the charter, but I do recall a fight a couple of years ago in which I was involved where $2 billion additional Treasury borrowing authorization was sought and we went to conference for a long period of time and there was a question as to whether or not the Export-Import Bank was going to continue and finally the fight for additional $2 billion authorization was abandoned but it was discovered there were enough funds to come in to roll over the amount and continue the activities of the corporation.

I think that we are not going to have enough time to have a really good look at an extremely important operation and, certainly, if it is going to be involved in East-West trade, as indicated, we ought to know where we are going, what we are doing and not be held up to ridicule when we get to the floor of the House and we cannot, as members of the committee, answer questions that are posed by many, many Members who will certainly be involved in controversy over this bill.

Mr. BARRETT. Mr. Chairman, I would like to get a better clarification of the statement made by the gentleman. If I comprehend this bill properly it is only an extension of Eximbank and it has no connection with any relationship with the Soviet Union. That is a matter of the administrative functions. That is not in this bill.

Mr. FINO. Will the gentleman yield? The minority has taken a very definite position that we are not opposed to the Export-Import] nk, per se, but we are opposed and we are very much concerned th what the Johnson administration is trying to do with the Bank.

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It is common knowledge that this bill, which has had little publicity until recently, has one aim and purpose and that is to finance the expansion of trade with the Soviet bloc and this is the important thing that Mr. Widnall was trying to say to this committee.

Mr. BARRETT. I have the floor, Mr. Chairman. I yielded to the gentleman. I would be glad to yield to these other members here. But I do not think it would be proper nor appropriate to label this wonderful banking operation by accusing them of attempting to go beyond their former functions. And what the administration does certainly will have no connection with them.

I yield to Mr. Ashley.

Mr. ASHLEY. Mr. Chairman, I find myself in a somewhat awkward position as chairman of the Subcommittee on International Finance. It is perfectly clear to me that there is indeed considerable question with respect to the proposed credit of $50 million financed through the Eximbank for the purchase of American machine tools. In all truth, this is a problem that we have already begun to face. The subcommittee, a group, I should say, of our subcommittee did travel to Italy and to the Soviet Union to look into this matter extensively and, as Mr. Fino knows, issued a report.

Now, I am the first to admit that other members have not had an opportunity to be heard on this issue. It is an issue which we know full well is going to confront us if we take the bill before us to the floor of the House. I must say that considering the extent of the opposition to this and the interest in this transaction which, I say I fully support, that we would be—we might, Mr. Chairman—we might be well-advised to allow a forum for discussion before my subcommittee, it being understood that the subcommittee report back to the full committee within a matter of a short period of time. This, it seems to me, might obviate what certainly will be a somewhat justified criticism if we get to the floor without having afforded an opportunity to all members of this committee to be heard on the issue of greatest concern to the members.

I say this understandingly, Mr. Chairman, that the decision with respect to the transaction in question is not made by Mr. Linder, but is made as a matter of fact, by the President in consultation with the Department of State, the Department of Commerce, Central Intelligence Agency, the Joint Chiefs of Staff, and others. It is only after such consultation that the administration has decided that it is in their opinion, in the best interests of the country to recommend the extension of the credit. But the fact that that has gone forward, it seems to me, does not justify and will not afford a sufficient justification on the floor of the House if members of the committee do not have an opportunity to review the discussions and the deliberations that took place with respect to this transaction.

The CHAIRMAN. May I repeat what I said in the beginning? No effort will be made to stop anyone from testifying or to stop the proceedings before we have an opportunity to fully and fairly discuss every issue, every proposal concerning this bill, and I stated at the beginning that if we do not get through today we will continue tomorrow on this bill.

I agree with the ones who say that we must thoroughly discuss every issue involved here or we would be in trouble on the floor. We do not

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want to do that. We want to have a full and complete hearing and I assure Mr. Widnall and the minority and all the other members that I will make a special effort to see that everyone is heard and if we do not get through here today, Mr. Widnall, if you have a witness for tomorrow, we will start here at 10 o'clock tomorrow morning.

Let us hear from Mr. Linder now.

Mr. FINO. Mr. Chairman, may I be heard?

The CHAIRMAN. Yes, sir.

Mr. FINO. Am I correct in assuming—and this is the only information that I have, that Mr. Linder is the only witness that is to appear before the committee to testify?

The CHAIRMAN. Just like trying a case in court, you do not know. We have testimony for the plaintiff and the defendant who will come in, and we will hear more for the plaintiff and defendant.

Mr. FINO. You are trying this case by ear. As you go along you want to feel there is a need for another witness.

The CHAIRMAN. That is right.

Mr. FINO. This is not the way to try a case.

The CHAIRMAN. We are preparing the case by having Mr. Linder give testimony for the administration in the beginning and then any opposition witness will be heard, especially ones sponsored by the minority.

Mr. FINO. Has the Chair requested testimony of Mr. Anthony Solomon, Assistant Secretary of State for Economic Affairs, as a witness?

The CHAIRMAN. The notices were given to the newspaper over a week ago and whether we have received letters from those particular persons I do not recall. It is not our duty to go out and solicit certain people to testify unless they will, of course, have testimony that is involved in the discussion before the committee. If Mr. Linder testifies, then there may be a request for other witnesses to be heard. If so, the request will be granted, as far as I am concerned.

Mr. FINO. If the chairman will yield further, we have had some advance copies of Mr. Linder's statement and I think as the principal author of the East-West trade policy, Mr. Solomon, Assistant Secretary of State for Economic Affairs, is the one best qualified to testify on East-West trade because this was the underlying question in this bill today.

Mr. Chairman, I move that this bill be referred to the Subcommittee on International Trade, under the chairmanship of Congressman Ashley, for full consideration of this legislation and the committee be given an opportunity to really dig into the background of this legislation.

The CHAIRMAN. Will you hold that until Mr. Linder has testified? I do not believe it would be in order now.

Mr. HANNA. Parliamentary inquiry, Mr. Chairman.

If I understand the point that was being raised here in relation to what we have before us, we have a bill here that will extend the life of the Export-Import Bank, No. 1. No. 2, the bill would grant them some additional lending powers and has nothing to do with the appropriating of money at all. It appears to me that the questions that the gentleman raises have to do with the relationship of the additional lending to some other legislation, to wit: The foreign aid bill which carried restrictions in it, the Trade Expansion Act, and the Foreign Assistance and Related Agencies Appropriations Act, which provided

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that there should be no dealings of the Bank or other agencies of the Government with the governments of the Eastern nations unless the President found it in the national interest.

Now, it seems to me, Mr. Chairman, that the question that the gentlemen are raising, relates to the interaction between this act and some other legislation. I am quick to see that this additional money will, of course, give additional life to the application of this other law. But I think that we ought to know what we are doing here and it seems to me what we are going to be doing is mixing the field of law that will be affected by the flow of funds but it would not be affecting the law at all that has to do with the control of these funds. Am I correct in that, Mr. Chairman?

The CHAIRMAN. I think you are correct, and further there would be a delay if we were not to continue to hear Mr. Linder on this legislation. There will be no effort made by anyone, certainly not by the chairman, to stop the hearings before we have had a full and complete hearing on every relevant issue.

Mr. HANNA. A further inquiry, Mr. Chairman.

Is it not entirely appropriate if we want to raise the question of how our actions relate to these other bills, that we can take appropriate action to have hearings about that interrelationship at any time?

The CHAIRMAN. Certainly. Even the Export Control Act that we renewed in the last Congress is subject to amendment any time any member wants to bring it up.

Mr. Moorhead.

Mr. MOORHEAD. Mr. Linder is here prepared to testify and it seems to me appropriate to hear Mr. Linder, have the questions and defer motions, such as referring it to the subcommittee or referring particular questions until after we hear Mr. Linder. I think this is a question the committee should take up in executive session after we have heard Mr. Linder's testimony.

Mr. WIDNALL. Mr. Chairman, I just would like to suggest this to the committee. I feel it would be very unwise for us to act until we have heard from Mr. Solomon of the State Department, some representative of the CIA, the Department of Defense, representatives of the machine tool industry, and the representative of the Export Control Office.

Now, some of those witnesses, it seems to me, would have to be heard or should be heard in executive session of this committee. I think it would be only proper to do so.

One further comment. I am a little bit tired, Mr. Chairman, of many times being caught in this bind. The full hearings having to do with important legislation like this take place before the Appropriations Committee after we have authorized the legislation. It seems to me it is our proper function to have original hearings which go fully into the matter so that it is not necessary for the Appropriations Committee later on to fully examine and decide whether or not we are going to appropriate any money.

The third thing called for under this proposal which has to do with export guarantees, to increase it by $1.5 billion. I do not think the gentleman from California, Mr. Hanna, mentioned that. This, I feel, is something that they can incur without going before the Appropriations Committee as I understand, and would permit $1.5 billion obligation on our part in an area that is unexplored entirely by this

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committee at the present time and also at the present time by Mr. Linder in his statement about to be given before the committee. I would suggest hearing Mr. Linder and then determine if any further action should be taken.

Mr. MOORHEAD. That is exactly my suggestion.

The CHAIRMAN. Is there any further comment? The Chair hears none.

Mr. Linder.

STATEMENT OF HAROLD F. LINDER, PRESIDENT AND CHAIRMAN OF THE BOARD, EXPORT-IMPORT BANK OF WASHINGTON; ACCOMPANIED BY WALTER C. SAUER, FIRST VICE PRESIDENT AND VICE CHAIRMAN; AND B. JENKINS MIDDLETON, VICE PRESIDENT FOR PROGRAM PLANNING AND INFORMATION

Mr. LINDER. Mr. Chairman, may I begin by presenting to the members of the committee the members of the board who were not members when last I had the privilege of appearing before you.

Behind me, Mrs. Elizabeth May, Mr. Hobart Taylor, Jr., and Mr. Tom Lilley.

Now, if you will permit me, Mr. Chairman, to my right is Mr. Walter C. Sauer, first vice president and vice chairman, and to my left is Mr. B. Jenkins Middleton, vice president for program planning and information who has been with the Bank for many years, and recently has become an officer of the Bank.

Mr. BARRETT. Will the gentleman yield for just one point? Would you be kind enough to identify your other associates and the part they play in the Bank?

Mr. LINDER. We are a board of directors and no specific assignments are given to each member of the board. The law provides that I, as president, am the chief executive officer, and when I am absent, Mr. Sauer, who is vice chairman and the first vice president of the Bank, becomes the chief executive officer. All of our actions are taken by the board as a whole and I am happy to say that although it is a bipartisan board, the actions are, almost without exception, unanimous.

The CHAIRMAN. You may proceed, Mr. Linder.

Mr. LINDER. Mr. Chairman, I would like to add to my statement at the very beginning, in light of the discussion which I have been privileged to hear for a few moments here with respect to the East-West trade. I wish to assure members of the committee that we made no special allowance for East-West trade authorizations in calculating the $4.5 billion we anticipate will be needed for additional lending authority. Our current volume of business includes very little financing of East-West trade. If you extrapolate our current figures, leaving aside entirely East-West trade possibilities you will find that we will use up the $4.5 billion within 5 years, the time when next we will need to renew the life of the Bank, and, perhaps even before then.

I would also add that we are coming to you in the spring of 1967 because of our experience in the spring of 1963 when we left the matter of renewal of our life and increase in our lending authority until a later time and then found that the Congress might not act in time to preserve the continuity of our institution. Our coming to you at this time has no relationship to any interest on the part of the administration in the financing of trade with Eastern European countries.

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Now, if I may begin, Mr. Chairman and members of the committee, I appreciate this opportunity to appear before you to discuss the operations of the Export-Import Bank and the proposed amendments to its statutory chapter. As you know, President Johnson in his economic report of January 1967 stated that he was recommending to the Congress that, and I quote:

> As part of our long run balance of payments program I shall * * * request continuation and expansion by $4.5 billion of the lending authority of the Export-Import Bank in order to support the expansion of exports * * *.

The bill before you, H.R. 6649, introduced by you, Mr. Chairman, as well as its companion bill, H.R. 6650, introduced by Mrs. Sullivan, gives effect to the President's recommendations by extending the life of the Bank for 5 years and increasing its lending authority which embraces, as well, its authority to issue guarantees and insurance. In addition, the bill provides for certain minor changes in the Bank's authorizing act, which I shall summarize later.

At the outset, let me say that we are not requesting, and the bill does not provide for, any additional borrowing authority. Rather, it deals with the Bank's lending or commitment authority; that is, the ceiling on the amount of commitments for loans, guarantees and insurance which the Bank may have outstanding at any one time.

I am sure that most of you are familiar with the operations of the Export-Import Bank. Nevertheless, I think it wise to introduce some background, particularly for the benefit of new members of the committee. Our Bank exists primarily to assist in financing U.S. exports. Thus, not only does it make a significant contribution to our domestic economy, but possibly even more significantly at this time it contributes to the favorable side of our balance of payments. Last year, repayments and interest received on Eximbank's loans and on loans guaranteed or insured by the Bank contributed, we calculate, about $1.5 billion to the credit side of the U.S. balance of payments.

The Bank's loans are "tied" to U.S. exports and are repayable in dollars. The Bank is required by its statute to make only those loans which it finds offer reasonable assurance of repayment, and it is also enjoined to supplement and encourage, and not to compete with, private capital.

The Bank meets these export financing requirements in a number of ways. First, we make direct loans to foreign borrowers, public and private—not infrequently companies in which U.S. citizens or corporations have substantial interests. The purpose of direct loans usually is to finance the purchase of capital goods from the United States when, and as is the case with all of our loans, such credit in our judgment is not obtainable in the private financial markets.

Second, on occasion we authorize special foreign trade credits to countries with which the United States conducts considerable trade. Such credits assist the recipients by tiding them over a temporary period of dollar shortage, thereby maintaining a normal flow of U.S. dollar sales. These special credits are usually of short duration and frequently are never drawn down. Nevertheless, their mere authorization, in my experience, has always had a salutary effect.

Third, the Bank has a guarantee program which assists private commercial banks to finance exports. Under this program the exporter makes arrangements with his bank for financing the sale, normally on

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terms of from 1 to 5 years; and his bank in turn can arrange with Eximbank to guarantee the buyer's obligation against a portion of the credit risk and virtually all of the political risk.

Fourth, through the insurance program of the privately owned Foreign Credit Insurance Association (the FCIA) an exporter can obtain insurance against risks of loss on both short-term and medium-term financing of sales abroad. The FCIA in turn is affiliated with Eximbank, which reinsures the Association against political and major credit losses.

Finally, our Bank recently initiated—beginning last September—a discount program under which commercial banks may borrow from Eximbank up to a certain percentage of their holdings of foreign obligations arising out of U.S. export transactions. This program was designed to create an additional incentive for commercial banks to increase their export financing activities.

When I appeared before you just about 4 years ago, I had the opportunity of summarizing the financial history of the Bank from its inception to the end of the calendar year 1962. While those who have been members of this committee have been receiving reports of our operations, I think it may be useful, Mr. Chairman, for new members of the committee and for those who have not found it possible to study our reports if I give a brief summary account of the Bank's operation over the intervening period. With this in mind, I would like to insert in the record a table entitled "Summary of Operations, 1962–66."

The CHAIRMAN. Without objection you may insert the statement.

(The summary referred to follows:)

Summary of operations, 1962–66

LOAN PROGRAM

[In billions of dollars]

	Cumulative to Dec. 31, 1962	Cumulative to Dec. 31, 1966	Increase over 4-year period
Loan authorizations	[1] $13.4	[1] $17.4	[1] $4.0
Loan disbursements	[1] 9.2	[1] 11.4	[1] 2.2
Loan repayments	5.2	6.9	1.7
Interest and fees received	1.5	2.2	.7

INCOME, DIVIDENDS, AND RESERVES

[In millions of dollars]

Net income	$1,100	$1,600	$461
Dividends to U.S. Treasury	306	506	200
Accumulated reserves for contingencies and defaults	804	1,100	261

[1] The differences between amounts authorized and the amounts disbursed represent cancellations, transfers to others, sales of loans, and undisbursed balances of outstanding commitments.

Mr. LINDER. The difference between the amounts authorized and the amounts disbursed, as you will see from the footnote, represents cancellations, transfers to others, sales of loans, and undisbursed balance of outstanding commitments. Our repayments amounted to $1.7 billion and we received interest and fees during that period of some $700 million.

We have had a net income of $461 million after paying interest on the money which we borrowed during that 4-year period.

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Our dividends to the U.S. Treasury have amounted to $200 million and we have added to our reserves, for contingencies and defaults, some $261 million.

You will note from this table that the Bank has earned, after payment of interest and other operating expenses, something over $100 million annually, about one-half of which has been paid in dividends to our stockholder—the U.S. Treasury. But I do not believe it sound, Mr. Chairman, to speak of profits without at least looking at the other side of the coin—to the Bank's possible losses. The notes to the balance sheet contained in our annual report submitted to the Congress last October stated that there were $53 million of loans receivable in default, comprising old credits to Cuba and to mainland China. In addition there were delinquencies of approximately $8 million in payments due from Indonesia, the total debt of which to Eximbank is $80.7 million. Also, there are other delinquencies aggregating some $9 million which, in the opinion of our Board, are temporary and attributable to either routine delays or transistory exchange difficulties. It is germane to mention that we are adding some $60 million each year to our reserves, which now stand at about $1.8 billion or an amount about equal to our paid-in capital.

Today, the position of the Bank may be summarized thus: We have total commitments of approximately $6 billion on direct loans, of which $4 billion are outstanding, and the balance, or $2 billion, is committed but not yet disbursed. In addition, our present level of guarantees and insurance is $1.6 billion.

The operations I have just described are carried on under the Export-Import Bank Act of 1945, as amended. The bill now before you would further amend that act.

The first proposed amendment relates to the life of the Bank. In 1947 Congress provided for continued operation of the Bank until June 30, 1953. Three subsequent Congresses, upon the recommendation of this committee and the Senate Banking and Currency Committee, extended the terminal date for a period of 5 years so that the act now provides for a terminal date of June 30, 1968. We are now proposing that the act be amended to extend the Bank's life for an additional 5 years to June 30, 1973.

The second major proposed amendment to our act is an increase in the Bank's lending authority from a present level of $9 billion to $13.5 billion, an added amount of $4.5 billion. During the past year we have experienced a very substantial increase in our business. We believe that the Bank's annual authorizations—and hence charges to its lending authority—are likely to continue at a significantly higher level than was true prior to the current fiscal year. Our budget forecasts that at the close of the 1967 fiscal year outstanding commitments will have reached approximately $7.8 billion, and our uncommitted lending authority under the present $9 billion limitation will thus have been reduced to approximately $1.2 billion. This reserve lending authority of $1.2 billion would be less than 1 year's anticipated net increase in authorizations.

In view of the long leadtime entailed in negotiating most of our large direct credits and the large volume of these loans under active and serious consideration at any one time, it is essential that the uncommitted lending authority of the Bank be not reduced below such a figure. If our ceiling is not raised, the Bank might well find it neces-

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sary to slow down negotiations with foreign buyers of U.S. exports, which might force these buyers to seek credit and equipment from our competitors abroad.

It is difficult to estimate how long the additional authority now requested will suffice. This will depend on a number of imponderables. One, of course, is the rate of increase in international trade and in the U.S. share of it. Another is the volume which can be financed privately as against the amount which will require governmental assistance. Another factor, of course, is the extent to which debts due us will be prepaid. It may interest and possibly surprise the committee to learn that our debtors, on a number of occasions, have made very substantial prepayments. There are times, also, when certain credits can be canceled without harm to the U.S. trade position; and it has been possible at times to place our outstanding credits in the private market, either without recourse to us or on a guaranteed basis. Placement on either basis serves to reduce the amount of lending authority employed by the Bank.

Here, however, let me pause to make one point quite clear. The Bank has over the years consistently demonstrated that it does not grant loans just because it has authority to do so. We do not program our funds in a manner to assure that they will be expended within a given time period. Rather, we use our resources only as they are required to finance loans which we believe to be sound. I can assure you that the present board of directors will continue this prudent exercise of its authority and operate in a manner in keeping with the tradition of the Bank.

In summary, we are not asking for an appropriation nor are we requesting additional borrowing authority from the Treasury. We are asking for an increase in the Bank's lending limit, and we will utilize that increased limit only to the extent that it is needed to finance trade of the United States for which funds cannot readily be found in the commercial banking system.

During the past year we have made a study of the export potential in certain key industries where financing assistance of the Bank has been and promises to be useful. We have concluded that it is reasonable to look forward to significant increases in U.S. exports in the years ahead—particularly those based for the most part on U.S. technology. Most of us do not see any reasonable prospect of significant gains in exports for many of the older and relatively standardized products. Hopefully, such exports will continue at or near levels of the past, but in the face of increasingly severe competition from other nations, export volume in these products is not likely to grow. But in the industries where our technology gives us leadership we are making gains, and can make further gains.

Let me mention aircraft as one outstanding example. During this fiscal year, Eximbank will conclude loans involving about $1 billion worth of jet aircraft exports to the airlines of the world. Some of these transactions involve shipments that will not be made until 1969, 1970, and 1971—specifically, the so-called jumbo jets which will seat 300 to 500 people and/or carry greatly increased quantities of cargo. As we look ahead, despite the present large volume of plane exports, we find that every projection prepared by industry or Government or our own Bank staff leads to the conclusion that we may anticipate in the near future substantially increased sales abroad of jet aircraft.

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We estimate that some $6 billion of U.S. commercial aircraft (including spare engines and parts) may be sold and delivered abroad over the next 5 years, and that at least $4.5 billion, or three quarters of the total, may require U.S. credit facilities. Conservative estimates suggest that Eximbank is likely to be called upon to assist in the financing of some $2.5 billion to $3.5 billion in aircraft alone.

Today, in aircraft, we see only limited competition from other nations; but we should recognize that there will be more in the future from France, England, and quite possible the Soviet Union. Given our present lead, however, the United States should have every chance to continue as the major seller of jet aircraft for the world.

Another growth area is that of nuclear power. During the past 5 years the Bank has extended hundreds of millions of dollars of credits for conventional electric power facilities With the advent of nuclear power, the Bank has been called upon to finance the export of nuclear reactors. By the end of this fiscal year we will have granted a total of some $270 million of credits for nuclear power facilities.

It is estimated that the free world's nuclear power capacity, which was about 6,000 megawatts at the beginning of 1966, can be expected to reach approximately 80,000 megawatts by 1975. In power, the United States faces substantial competition, but U.S. exports of nuclear reactors have progressed very well. It is our present estimate that in the 5-year period ahead, Eximbank is likely to be called upon to finance about $150 to $200 million a year of nuclear power, or a total of $750 million to $1 billion over the next 5 years.

In another field—telecommunications—most nations of the world are beginning to shop for so-called "ground" stations. There are complexes of equipment which make possible the sending and receiving of signals to and from communications satellites. In the next couple of years it is estimated that some $250 million will be spent on these ground stations alone; and this $250 million will be dwarfed by the related expenditures for telecommunications inside individual countries and regions. Here the United States certainly has no monopoly, but our manufacturers should be able to get a resonable share of the business.

Thus far, I have mentioned but three important industries where each single sale is likely to involve some millions of dollars. Yet even though the number of prime contractors necessarily may be limited, it is quite clear that a large number of medium and smaller businesses throughout the United States have a direct stake in this export business. In the commercial aircraft field, for example, we are informed that one leading manufacturer uses over 28,000 suppliers and subconstractors, and that the value of the components so supplied constitutes 50 percent of the total cost of the aircraft.

In addition to these major pieces of business, a very great deal of the trade of the world, as you all know, is composed of thousands of smaller transactions. Many of these products which the United States sends abroad are also those where U.S. technology makes us, and we expect, will continue to make us, competitive in world markets—earth moving and agricultural equipment, sophisticated new machine tools, computers, air ground control equipment, and other complex electronic gadetry, not to mention products yet to be born.

What I am saying is that we live in a world of accelerating technical change, and the United States has the resources and the momentum to

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continue to be an industrial leader in that world. The Export-Import Bank will be called upon in the future to assist in financing exports of these products—and, I believe, and hope, more and more of these exports.

In the case of the large-scale complex items, our direct loans will continue to be the major mechanism for export financing. But the use of our guarantee and insurance programs to finance the myriad of smaller individual deals can be equally important. The Bank's guarantee and insurance programs were initiated in 1961 when the Congress, upon recommendations of this committee and the Senate Banking and Currency Committee, enacted legislation which gave the Bank board authority to insure and guarantee export transactions, including the authority to issue up to $1 billion of export credit insurance and guarantees on the basis of 25 percent reserve. This was increased in 1963 to a level of $2 billion. These programs were deliberately set up to work through commercial banks and insurance companies so as to utilize private institutions to the maximum, and thus to reinforce the policy of our Bank to supplement, rather than compete with private enterprise.

I should comment briefly on the relationship of our $2 billion ceiling on guarantees and insurance to the $9 billion total ceiling on all loans, guarantees, and insurance outstanding. Our statute provides that only 25 percent of actual outstanding guarantees and insurance under the $2 billion ceiling needs to be charged against our lending authority. To illustrate, while the Bank's present gross amount of guarantees and insurance is approximately $1.6 billion, 25 percent of this amount, or $400 million, is charged against our present $9 billion ceiling on total commitments.

You will note that the gross $1.6 billion presently outstanding for guarantees and insurance is not far from the statutory gross $2 billion ceiling. This leaves a relatively small margin of unused authority. Should the money market ease further, we would hope to place privately under our guarantee a number of sizable credits, and this alone, in the not too distant future, appears likely to exhaust the current $2 billion limitation on guarantees and insurance which can be authorized on the 25 percent basis.

We feel, therefore, that an additional authorization is necessary, and are therefore proposing an increase of $1.5 billion from the present $2 billion level. This, however, is not in addition to, but rather is included in, the total requested increase in our lending authority of $4.5 billion.

Mr. Chairman, you will recall that our legislation provides for—

> * * * an advisory committee of nine members, appointed by the Board of Directors on the recommendation of the President of the Bank, who shall be broadly representative of production, commerce, finance, agriculture, and labor.

We are particularly fortunate at this time, as we have been in the past, in having a committee comprised of outstanding and representative men. They are:

Howard C. Petersen, chairman and chief executive officer, Fidelity Bank, Philadelphia, Pa. (Chairman of our committee); Alfred W. Barth, executive vice president, Chase Manhattan Bank, New York City; Nat Goldfinger, director of the department of research, AFL–CIO, Washington, D.C.; Joseph A. Grazier, president, American Radi-

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tor & Standard Sanitary Corp., New York City; J. Victor Herd, chairman of the board, the Continental Insurance Co., New York City; Dr. James A. McCain, president, Kansas State University, Manhattan, Kans.; Philip W. Pillsbury, co-chairman of the board, the Pillsbury Co., Minneapolis; William F. Ray, manager, Brown Brothers Harriman & Co., Boston; and president of the Bankers Association for Foreign Trade, ex officio; and Eric Ridder, publisher, the Journal of Commerce, New York City.

This committee met with the Board and senior officials of the Bank for a full day last fall, during which the operations of the Bank were reviewed and the substance of the bill before you was fully discussed. And on a number of occasions since that time I have had the benefit of many hours of discussion with Mr. Petersen, the Chairman of our Advisory Committee. I am pleased to be able to report to you that these gentlemen, who are leaders in their respective fields, support without reservation the bill you are now considering.

In addition to the more important aspects of the bill which I have just discussed, the legislation includes provision for two relatively minor changes in our act. The first is an alteration of the name of the Bank from the present "Export-Import Bank of Washington" to the simpler title of "Export-Import Bank." The words "of Washington" were initially part of the Bank's title when in 1934 the Bank was incorporated in the District of Columbia. However, when the Congress enacted the Export-Import Bank Act of 1945, such incorporation ceased, but the title was left unchanged. It seems appropriate for the Bank to have the simpler title more commonly used and omit the now-no-longer-needed "of Washington."

The second minor change which we are requesting is an increase in the rate of per diem allowance for the members of the Bank's Advisory Committee. The act presently provides that members of this committee:

> Shall be paid a per diem allowance of $50 for each day spent away from their homes or regular places of business, for the purpose of attendance at meetings of the Committee, and in necessary travel, and while so engaged they may be paid actual travel expenses and not to exceed $10 per diem in lieu of subsistence and other expenses.

The proposed amendment of this section would make the allowance to committee members comparable to that paid by the Bank to other consultants, and would make these allowances conform to generally prevailing levels in the Government.

Mr. Chairman, this completes my statement on the proposed amendments to our act and summarizes the principal reasons for requesting these changes. Let me repeat: We are not asking for additional borrowing authority. We shall not utilize the additional lending authority or the added authority to guarantee and insure unless there is a clear need to do so. We are requesting the extension of our life and these increases in lending authority because we believe that their enactment will put the Bank in a position over the next few years to continue as an effective instrument which, without cost to our taxpayers, will aid our country's economy and assist in the very necessary improvement of our international balance of payments.

I thank you very much, sir.

The CHAIRMAN. Thank you, Mr. Linder, you have made a very fine statement and I congratulate you on it.

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I would like to ask briefly just two or three questions and then I will yield to Mr. Widnall.

I notice, Mr. Linder, your present charter extends to 1968 and I was wondering if there was any reason why you were up here asking for this extension well over a year before such expiration?

Mr. LINDER. Mr. Chairman, I think I indicated earlier that we had a rather unfortunate experience in 1963. The Senate and the House disagreed over an issue which is not particularly germane at this time. As a result, the consideration of the Bank's legislation by Congress extended beyond June 30, which meant that the Bank was unable to make new commitments for some 7 weeks, if I recall correctly. We were, in effect, out of business, and this hurt our exporters and hurt our trade. The other reason for our coming up so far in advance is that we expect our uncommitted lending authority to be down to a level which we consider an absolute minimum by June 30 of this year. Were we to hold off asking Congress for additional lending authority until the spring of next year we might very well be out of business before Congress could act because we might hit the $9 billion ceiling before then: In fact, the President's budget for fiscal 1968 shows our outstanding commitments at over $9 billion on June 30, 1968.

Therefore, for both reasons we feel it highly appropriate that we should come to you now and ask the Congress for as expeditious action as is consistent with their understanding of the issues involved and our answering satisfactorily any questions you may ask.

The CHAIRMAN. Your statement was very comprehensive. If I am correct you are asking principally for two things: One is to extend the charter and the other is to increase the total amount of your authorization.

Mr. LINDER. Of our lending authority.

The CHAIRMAN. That is what I meant by authorization, yes, sir.

Now, Mr. Linder, can you tell us the aggregate total of all exports which the Export-Import Bank has financed since its beginning in 1934 and how much has been repaid on these loans?

Mr. LINDER. I think, sir, my statement summarizes it. We have authorized some $17.4 billion of loans, against which we have actually disbursed some $11.4 billion. But the difference between the two totals does not mean that we have not been involved in the financing of this difference. because we have sold a good many of those loans to banks and therefore the funds were disbursed by the commercial bank. In addition, part of the difference is accounted for by cancellations and outstanding commitments against which we have not yet disbursed.

The above figures refer to our loans only and do not include some $5 billion of guarantees and insurance that we have written. Thus, we arrive at a figure of something like $18 or $19 billion as being a reasonably accurate figure of total exports financed by the Bank, directly or indirectly.

In respect to what has been repaid, which is the real burden of your question, well over 60 percent of all the funds disbursed by the Bank have been repaid.

The CHAIRMAN. One other question.

What percentage of loss have you had over the 33 years of operation?

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Mr. LINDER. As I indicated in the course of my statement, it is a negligible percentage. Let us assume that all the loans which are presently in default will not be repaid—and that is a highly unrealistic assumption—but even so, let us assume that not only will the installments currently in default never be paid but that, in addition, the whole amount of these loans will never be paid. These defaulted loans include such loans as the tail end of a loan to mainland China of $26 million and loans to Cuba of $36 million. I think that our losses would then represent less than 1 percent of the loans that we have made. In other words, I think that a maximum potential loss figure would be something between $100 and $150 million.

The CHAIRMAN. I think that is a pretty good record.

Mr. LINDER. Yes, sir; I would think so.

The CHAIRMAN. Under the 5-minute rule we will go around.

Mr. Widnall.

Mr. WIDNALL. Thank you, Mr. Chairman.

First, Mr. Linder, inasmuch as you made a brief reference to 1963, I think I ought to clarify the record as I recall it. The Export-Import Bank was out of business by choice in that time because a continuing resolution of the Congress had been passed and which had been construed as applying clearly to the Export-Import Bank operation. As one of those who was involved in the major conflicts that took place in the House and Senate, where we were stalemated for a couple of months I recall very much that the stalemate ended when a Senator came back and reported to the conference, "is my face red," the money is not really needed at this time and they do not need the authorization and that was the end of the $2 billion request by the Bank to borrow additional funds from the Treasury. That was 4 years ago. You have been getting along pretty well. You still have well over $1 billion in lending authorization left.

Mr. LINDER. May I comment?

It is perfectly true that there was a difference of opinion and we did not share the opinion of legislative counsel that the continuing resolution applied to us. Since I was guided by my own General Counsel I did not feel that I could continue to make commitments and the rest of my Board, I think, was of the same opinion.

I would like to go still further to say that the chairman of the Senate conferees was under a misapprehension. The money was not needed from the Treasury of the United States any more than money is needed today from the Treasury of the United States. He was, if I may be permitted to say so, mistaken in his comment. The fact was that we did need additional lending authority, and I still think the record indicates that we did need it. The situation in 1963 is analogous to the present situation because, although we will have over $1.2 billion of uncommitted authority at the end of this fiscal year, this is a minimal amount for a bank which may have authorizations of over $2.7 billion in this current year, calculated on a statutory basis, to have uncommitted at any one time.

It seems to me that we needed to authority to lend more or commit more in 1963 and we need the authority to commit more today. What was clear, and I think I endeavored to make it clear to Members of the House of Representatives was that we did not need to have additional authority to borrow from the Treasury. That is what broke the

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logjam, so to speak, as you so ably pointed out in a long speech that you delivered explaining what had happened, which I remember very clearly.

Mr. WIDNALL. Thank you, Mr. Linder.

On page 8 you say:

> In view of the long leadtime entailed in negotiating most of our large direct credits and the large volume of these loans under active and serious consideration at any one time, it is essential that the uncommitted lending authority of the Bank be not reduced below such a figure. If our ceiling is not increased, the Bank might well find it necessary to slow down negotiations with foreign buyers of United States exports which might force these buyers to seek credit and equipment from our competitors abroad.

Can you give us any idea right now of the approximate amount of that active and serious consideration at the present time?

Mr. LINDER. I can't give you a precise figure, but I would say that if we are going to have in fiscal 1968 direct loans for equipment and services of $2.3 billion, there must be under active consideration at the present time well over a billion dollars of applications. In fact, I am positive that I am being quite conservative in that statement. I would revise it by saying something in the neighborhood of $1.5 billion.

I am confident of that largely because I know what is likely to come to fruition by action of our Board between now and June 30, and I know of a number of other pieces of business which face us after the close of our fiscal year. In those circumstances, I think that $1.5 billion is an estimate on which I would rest.

Mr. WIDNALL. On page 3 you referred to the guarantee program.

Mr. LINDER. Yes, sir.

Mr. WIDNALL. As you well know, I am very much interested in that. I introduced a bill for that purpose in the Congress and we were very pleased when we started this and it was quite successful and there were not very many repercussions in connection with it.

Do you have any figures as to the amount of the program at the present time, how much is under guarantee?

Mr. LINDER. I am combining guaranteee and insurance. I assume you wish to do that.

The amount under guarantee at the present time is approximately $1.6 billion. This includes short-term insurance, medium-term insurance, our regular medium-term commercial bank guarantees, and so-called financial guarantees.

Mr. WIDNALL. What has been the experience to date?

Mr. LINDER. You mean in terms of losses? Very good. But let me say this: The amount of premium that we collect is very small. We do that in order to stimulate the business, obviously. We are not trying to make a great deal of money on the insurance and guarantee business.

I think as far as the insurance is concerned, it is just about a standoff between our losses and our premium income. There may be a slight gain or loss.

On our guarantees, I think it is fair to say that we have done reasonably well, not as well as we do when we find money easy and can borrow at relatively lower rates enabling us to make a reasonable spread between the price we pay for money and the price at which we lend it. Most of our income is from our direct loans; not our guarantees or insurance.

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Mr. WIDNALL. Thank you.

Mr. Chairman, may I ask permission to have Mr. Linder insert in the record, at this place, the current figures with respect to this operation as to income and losses?

The CHAIRMAN. Without objection, so ordered.

(The material referred to follows:)

Guarantee program—Income and expense

	Inception through June 30, 1965	Fiscal year 1966	Fiscal year 1967 through Dec. 31, 1966	Cumulative through Dec. 31, 1966
Short term:				
Gross income	$698,954.87			$698,954.87
Less EIB administrative expenses	260,766.96			260,766.96
Net income	438,187.91			438,187.91
Less net claims paid	2,565.51			2,565.51
Addition to retained income reserve	435,622.40			435,622.40
Medium term, fee cases:				
Gross income	1,623,972.55	$761,201.19	$462,784.74	2,847,958.48
Less EIB administrative expenses	1,167,997.67	531,313.59	270,486.38	1,969,797.64
Net income	455,974.88	229,887.60	192,298.36	878,160.84
Less net claims paid	231,476.24	168,320.81	121,210.79	521,007.84
Addition to retained income reserve	224,498.64	61,566.79	71,087.57	357,153.00
Medium term, split-interest cases:				
Gross income	3,649,309.92	1,342,861.65	762,277.97	5,754,449.54
Less EIB administrative expenses	500,778.90	152,982.26	81,951.79	735,712.95
Net income	3,148,531.02	1,189,879.39	680,326.18	5,018,736.59
Less net claims paid				
Addition to retained income reserve	3,148,531.02	1,189,879.39	680,326.18	5,018,736.59
Guarantee program summary:				
Gross income	5,972,237.34	2,104,062.84	1,225,062.71	9,301,362.89
Less EIB administrative expenses	1,929,543.53	684,295.85	352,438.17	2,966,277.55
Net income	4,042,693.81	1,419,766.99	872,624.54	6,335,085.34
Less net claims paid	234,041.75	168,320.81	121,210.79	523,573.35
Addition to retained income reserve	3,808,652.06	1,251,446.18	751,413.75	5,811,511.99

FCIA insurance program—Income and expense

	Inception through June 30, 1965	Fiscal year 1966	Fiscal year 1967 through Dec. 31, 1966	Cumulative through Dec. 31, 1966
Short term, comprehensive:				
Gross income	$1,731,340.44	$395,419.91	$104,139.97	$2,230,900.32
Less EIB administrative expenses	774,907.68	207,327.42	103,193.60	1,085,428.70
Net income	956,432.76	188,092.49	946.37	1,145,471.62
Less net claims paid:				
Political	91,597.51	324,997.09	53,888.92	470,483.52
Commercial	630,810.46	197,505.98	14,470.31	813,846.13
Addition to retained income reserve	234,024.79	334,410.58	38,472.24	138,858.03
Short term, political:				
Gross income	745,885.63	282,671.78	70,244.91	1,098,802.32
Less EIB administrative expenses	349,622.42	148,091.03	14,741.95	512,455.40
Net income	396,263.21	134,580.75	55,502.96	586,346.92
Less net claims paid	6,056.15	172,833.97	3,185.92	182,076.04
Addition to retained income reserve	390,207.06	38,253.22	52,317.04	404,270.88

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FCIA insurance program—Income and expense—Continued

	Inception through June 30, 1965	Fiscal year 1966	Fiscal year 1967 through Dec. 31, 1966	Cumulative through Dec. 31, 1966
Medium term, comprehensive:				
Gross income	$180,912.00	$183,115.99	$114,475.08	$478,503.07
Less EIB administrative expenses	486,006.05	207,327.42	147,419.39	840,752.86
Net income	305,094.05	24,211.43	32,944.31	362,249.79
Less net claims paid:				
Political		35,164.16	19,173.50	54,337.66
Commercial	78,433.93	94,892.99	34,050.50	207,377.42
Addition to retained income reserve	383,527.98	154,268.58	86,168.31	623,964.87
Medium term, political:				
Gross income	140,305.31	54,452.26	23,234.32	217,991.89
Less EIB administrative expenses	69,924.48	29,618.22	29,483.87	129,026.57
Net income	70,380.83	24,834.04	6,249.55	88,965.32
Less net claims paid			43,978.00	43,978.00
Addition to retained income reserve	70,380.83	24,834.04	50,227.55	44,987.32
Other income and expenses:				
Miscellaneous income	6,944.07	7,850.95	3,994.00	18,789.02
Less nonadministrative expenses	2,226.44		12,669.71	14,896.15
Net income	4,717.63	7,850.95	8,675.71	3,892.87
Less claim expenses, claims, and recoveries unallocated to programs above	23,677.03	27,240.22	33,983.55	16,933.70
Addition to retained income reserve	18,959.40	19,389.27	25,307.84	13,040.83
FCIA program summary:				
Gross income	2,798,443.38	915,659.94	312,094.28	4,026,197.60
Miscellaneous income	6,944.07	7,850.95	3,994.00	18,789.02
Total income	2,805,387.45	923,510.89	316,088.28	4,044,986.62
EIB administrative expenses	1,680,460.63	592,364.09	294,838.81	2,567,663.53
Nonadministrative expenses	2,226.44		12,669.71	14,896.15
Total expenses	1,682,687.07	592,364.09	307,508.52	2,582,559.68
Net income	1,122,700.38	331,146.80	8,579.76	1,462,426.94
Less—				
Net claims paid	806,898.05	825,394.19	139,806.53	1,772,098.77
Claim expenses, claims, and recoveries unallocated to programs above	23,677.03	27,240.22	33,983.55	16,933.70
Addition to retained income reserve	292,125.30	521,487.61	97,243.22	326,605.53

The CHAIRMAN. Mr. Multer.

Mr. MULTER. Thank you, Mr. Chairman.

I am pleased to welcome Mr. Linder back again before our committee, not only as a fellow New Yorker, but as a one-time Brooklynite.

I am sure that most of the members of the committee will agree that he and his people have done a good job. I think the fact that you take the exaggerated figure of all possible losses and gather them together and add them up, and you get losses equal to only 1 percent is a remarkably good record—better than done by other similar institutions throughout the world, and certainly at least as good, if not better than some commercial banks do here at home.

With reference, Mr. Linder, to your proposal that is before us now, I would like to clarify—although I think it may already have been done, but so there cannot be any question about it, in asking for the additional lending authority—do you anticipate that you will not have to ask for any additional authorization for funds? In other words, you believe that the resources of the Bank now, and for the foreseeable future, will be ample to meet the requirements of the Bank for

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lending if we give you this additional aggregate lending authority?

Mr. LINDER. Well, Mr. Multer, I need to reply by saying that the resources which the Bank can command through the sale of participation certificates or through borrowing will be sufficient. I might add that I have every reason to believe that without borrowing from the Treasury they will be sufficient. But obviously our own resources are limited to some $2 billion; that is, our capital and reserves, which represent the equity of the Bank. The rest of it is borrowed money in one form or another or money acquired through the sale of guaranteed participations.

Mr. MULTER. I used the word "resources" in its loosest sense. I include not only what you have on hand but what you can get by borrowing and by drawing on the Treasury?

Mr. LINDER. I can answer that question clearly, yes.

Mr. MULTER. With reference to the incidental request that the name of the Bank be changed by dropping the words "of Washington," is it not possible that this may lead to some confusion? We have an Export-Import Bank of Japan and other countries are engaging in similar banking ventures, although not presently calling themselves export-import banks.

Would it not be better to change the words "of Washington" to "of the United States" in order to avoid confusion with any similar banks throughout the world?

Mr. LINDER. I doubt that we will have trouble. If it is the will of the Congress to change it to "of the United States," I would not object. I think the simpler name is adequate. I think that there is very little likelihood we will be confused with the Japanese. Our own Bank is so many, many times larger and is known throughout the world to a much greater extent.

I have particular objection to "of Washington," because there is an assumption by some that this is a District of Columbia affair and I think that leads to greater misapprehension than the title "Export-Import Bank" without any qualifying phrase. We tried to make it as simple as possible and we did not want to sound too grand by saying "of the United States."

Mr. MULTER. Should we not change it to the name we all call it, Eximbank?

Mr. LINDER. This is in our logotype, our trademark, so to speak. We refer to it that way constantly and it is referred to that way constantly. I think corporate names and corporate seals require a certain amount of dignity and therefore I think we'd rather have it spelled out.

Mr. MULTER. Thank you, Mr. Chairman.

Mr. FINO. Mr. Chairman.

The CHAIRMAN. Mr. Fino.

Mr. FINO. Thank you, Mr. Chairman.

Mr. Linder, in discussing the losses in answer to a question from the chairman, did you include the amounts of interest which were waived by the Bank?

Mr. LINDER. Yes; I am sure that figure was included. Mind you, I have not made a careful calculation, but I think I am on the conservative side.

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Mr. FINO. In your prepared statement you avoided discussing any plans for the Bank to finance the extension of U.S. trade with the Soviet bloc, yet everyone knows this is the reason for this bill—or at least the extension of loan and guarantee authority. On March 22, Columnists Allen and Scott, writing in the Northern Virginia Sun, said that the President told Democratic congressional leaders that this bill's "chief purpose was to expand the trade with the Communist nations."

Would you comment on that, please? Do you care to comment on that?

Mr. LINDER. I cannot comment on someone's statement. All I can do is to repeat what I said at the beginning of my statement. That is, the calculation we have made is not based upon any increase in trade or any trade at all with the East. The $50 million of trade that we financed to the East in fiscal year 1966 is very, very small in relation to the whole volume of our business. Our calculations of the $4.5 billion gave no consideration whatever to trade with the East.

Mr. FINO. Are you familiar, Mr. Linder, with the President's announcement last fall that the Export-Import Bank would make the Fiat loan and they would also guarantee commercial credits to Poland, Hungary, Bulgaria, and Czechoslovakia?

Mr. LINDER. Certainly I am familiar with that and approve of it; if you are interested in my own opinion. I agree that it is the appropriate thing for us to do.

Mr. FINO. To trade with the Soviet bloc?

Mr. LINDER. Yes.

Mr. FINO. Is that what you are saying?

Mr. LINDER. Yes.

Mr. FINO. One of the arguments advanced for Fiat's deal is that it is both nonstrategic and likely to ease tensions. Let me read to you an excerpt from Barron's—I am sure you are familiar with Barron's Weekly?

Mr. LINDER. Yes, sir; I have read it.

Mr. FINO. This is on January 16, 1967—I would like to have your comments on it. It said:

> The Vietcong transport for its guerrillas (weapons and supplies) is donated largely by the Red bloc. Rumanian and Czechoslovak trade agreements with North Vietnam include vehicles; and Prague radio (again only for internal broadcasts) said: "We shall deliver machines and equipment, means of transportation."

Would you care to comment on that?

Mr. LINDER. My only comment is that I probably could, if you require it, present a series of quotations to the contrary—contrary in the sense of applauding the possibility of the Bank financing some small part of this arrangement between Italy and Russia. I do not make the diplomatic policy of the United States, nor do I make the export control policy of the United States. But I would like to make it perfectly clear that I agree with the administration's position. I agree with Secretary Rusk, I am enormously impressed with what Ambassador Kohler, having spent several years as Ambassador to Russia and now being Under Deputy Secretary of State, had to say on this subject; I am impressed with what Mr. Solomon, as the Assistant Secretary of State for Economic Affairs, has stated; and I am impressed with what Mr. Trowbridge has stated as the Acting Secretary of Commerce. I am impressed by the U.S. Council of the

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International Chamber of Commerce, by the Committee for Economic Development, by the U.S. Chamber of Commerce, and by the statement made by Mr. Walter Reuther. All these sources seem to be supporting the position that trade with the East is in the best interests of the United States.

But for myself, I would just like to make one clear point. As a businessman, and as a banker for the Government at the present time, I know that if we do not sell to the East, our friends in Europe will be selling to the East and are selling to the East. They are doing a great deal of business at the present time with Eastern Europe and we are doing a negligible amount of business with Eastern Europe. They are doing a great deal of business with the Soviet Union and we do a very, very small amount of business.

Mr. FINO. Do you think, Mr. Linder, in view of the fact that we are at war in Vietnam and Russia is supplying, or the Soviet bloc is supplying, strategic materials to Vietnam, that we should trade with the Communist bloc?

Mr. LINDER. I tried to make myself clear, Mr. Fino, I don't know that I have anything more to say. I said that I did not make the diplomatic policy of the United States. I happen to believe that the amount that is going to be supplied to North Vietnam by the East is not going to be affected one iota by any amount of financing that we make available to the Eastern European countries. I hate to see, when we have huge, as we have had, agricultural surpluses in the United States, any restraint on our selling the wheat, or the soybean, or cotton, or whatever it may be, while other countries who are competing with us and who also have agricultural surpluses are able to sell theirs. This, as a person interested in the banking and business aspects of East-West trade a person concerned with our balance of payments, is something that I don't like to see go on and I don't think it is a wise thing for the United States to permit to go on.

Mr. FINO. In view of your testimony here today and in view of the importance of this legislation and in view of the fact that this question of trade with the Soviet bloc is questioned, do you not think that this committee should have the testimony of Mr. Solomon, who, as I understand it, is the principal author of this East-West trade policy?

Mr. LINDER. I wouldn't presume to say what this committee ought to do. Mr. Solomon has testified before congressional committees.

Mr. FINO. I am talking about this legislation now before us.

Mr. LINDER. I don't really think so, Mr. Fino, no. I doubt if this legislation is really germane to this. I think, as the chairman pointed out, that this is a matter of basic policy of the United States. It is a matter of the foreign policy of the United States, if you will, for which the principal responsibility lies with Secretary Rusk. It is a matter relating to the Export Control Act. Eximbank's role is merely to be prepared to finance, when we think we will be repaid, such trade as is entered into within the limits of the laws of the United States. I would think it most unfortunate, even if the Congress should take some position with respect to this trade, if this position were incorporated in the Export-Import Bank Act.

We have a simple, clean charter in our legislation. We come before the Appropriations Committees of the House and the Senate each

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year. They set a limit on what new commitments we may make during that fiscal year. The Appropriations Act also has included a provision limiting our financing of exports to Communist countries. But the Banking and Currency Committee gives us our broad general banking powers.

Mr. FINO. My time is just about up. What you are saying to this committee is that you are only interested in dollars and cents. I am interested in human lives which might be affected by this type of legislation.

Mr. LINDER. I am sorry, sir, I am not saying that at all. I am saying it is the function of other parts of the Government to make and administer an export control policy. I am interested in what our charter requires me to be interested in, namely, to finance trade where I feel there will be reasonable assurance of repayment.

Mr. FINO. Dollars and cents again.

Mr. LINDER. I said my concern as head of this Bank is with matters which are properly the responsibility of the Bank.

Mr. ST GERMAIN. The rule is 5 minutes per member.

The CHAIRMAN. Members must observe that.

Mr. FINO. Mr. Chairman, I had 24 or 25 questions that I would like to submit.

The CHAIRMAN. We will grant that to you. We will either get back to you or Mr. Linder will answer any questions submitted by any members of this committee when he has examined the transcripts, will you not, Mr. Linder?

Mr. LINDER. Yes, sir.

Mr. MULTER. If I may ask unanimous consent at this moment—I think Mr. Linder was about to make a statement in answer to Mr. Fino's question which would indicate that his bank must follow the policy laid down by the executive department.

Mr. FINO. He made it clear.

Mr. MULTER. I thought he was interrupted.

The CHAIRMAN. We have a communication from the State Department which supports this legislation and I will read this—

> We strongly support the draft bill in its entirety. We believe that extending the charter of the bank for an additional five years will prove very beneficial to our balance of payments as well as to our foreign relations. We also consider the provisions for increase in the bank's overall lending authority and for additional authority to issue insurance and guarantees to be reasonable.

Mrs. Sullivan?

Mrs. SULLIVAN. Thank you, Mr. Chairman.

Mr. Linder, I notice that several presidents and board chairmen of insurance companies have announced their strong support of passage of this bill. I assume many of these insurance companies are members of the Foreign Credit Insurance Association which administers the credit and political risk insurance policies on export credit in conjunction with the Export-Import Bank. This program has been in existence for about 5 years.

Could you tell us whether this insurance program is profitable to the members of the FCIA; whether there have been any substantial losses paid through the insurance coverage under the program; whether there have been any changes in rates of such coverage; and what system is used by the members of FCIA and the Export-Import Bank to revise the insurance rates, if and when profits are excessive?

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Mr. LINDER. I am pleased to learn, Mrs. Sullivan, that a number of insurance company presidents have endorsed this. I didn't realize that. The only one that I was consicious of was Mr. Herd, who is chairman of the Continental group of companies and is on our advisory committee, and Mr. Bivin, who is an insurance executive and on the governing committee of the FCIA.

Now, in respect to your first question, I can assure you they have made very little money out of it. As a matter of fact, at times it has been difficult for us to hold this group together because it was not especially profitable. But we felt strongly that they ought to be held together in the interests of our export business, and, that Congress agreed with us.

Secondly, we do have a most flexible arrangement with the Foreign Credit Insurance Association. They can come to us at any time and say, "Look, here are our books, this is the position, we are losing too much on this, we don't think you are going to lose any money if our contract with you is revised." By the same token, we have the right to go to them. As a matter of fact, our last arrangement with them had the specific understanding that if it turned out to be more profitable than we anticipated, there could be an adjustment.

As to claims which have been paid, we paid claims on export insurance of $1,800,000 thus far. We have had, as I say, relatively little net income and I am positive that the same is true for the insurance companies. Moreover, there are 70 companies in this, most of them very large. Let us assume the unlikely eventuality that FCIA made $5 to $10 million per year in net income. By the time that sum was divided between these companies it would be de minimis in relation to the total size of these companies. I am not suggesting that $5 million is not important—it is. But it would be a small amount in relation to the other income of those companies.

In actuality, there is nothing like $5 million of net profit made.

Mrs. SULLIVAN. But they have not had losses, have they?

Mr. LINDER. No, I would just say they are about in the same position we are. They have about broken even.

Mrs. SULLIVAN. One of the important functions of the Export-Import Bank is to provide credit insurance for American business firms selling American products overseas. Would you briefly explain the steps a firm goes through in obtaining such insurance and the circumstances under which this payment is made?

Mr. LINDER. When the exporter wants export insurance he has the choice of short- or medium-term programs. In the short-term program, in which the exporter sells what we call shelf merchandise of not very large value in a series of repetitive sales he goes to an insurance agent or broker, or if he happens to be in New York, and has a large enough company, he may go directly to FCIA. He will talk to them about insuring all of his short-term business; that is, sales on credit of up to 180 days. He may, on the other hand, say to FCIA, "I don't really need insurance in respect of certain buyers because I have been doing business with them for a long time, and I would like to exclude them and not buy insurance on that and reduce my premium." At which point FCIA says, "All right, give us a reasonable spread of your risks so we are not just taking the bad ones."

They work something out and he buys the policy and under the policy he is given certain discretionary limits in respect of certain

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customers, but almost invariably they are for small amounts. However, the exporter can apply to FCIA for a special credit limit in respect to an important customer and that is granted to him after the credit standing of that customer has been examined. So much for the short-term business.

In the medium-term business, the insurance runs to each transaction. Assume that a man wants to sell $500,000 worth of agricultural equipment to someone in Chile. He will go to the FCIA and say that he has a deal with Juan Lopez for $500,000. "Juan is paying 20 percent down and I will take 15 percent of the balance; that is, the financial portion. Will you please insure us for 85 percent of the financed portion?" which means 85 percent of 80 percent of the invoice value. FCIA, in turn, will say, "Tell us about your experience with Juan." "Well, I have been doing business with him for 8 years, and he has always paid his bills on time, I have extended credit for 2 or 3 years."

FCIA will then say, "Why don't you extend it now?"

He will say, "I am just fully committed, I need money. The only way I can do it is to borrow against this paper and I have insurance coverage to get such a loan."

So, FCIA will look into Juan and we will look into him. For this we have very extensive credit files. In addition, there are branches of American banks in Santiago and in one way or another we will get credit reports. We may ask for the guarantee of a local bank or we may not. Within a reasonably short time, sometimes within 48 hours, the insurance policy is granted. Sometimes it takes longer if a complete analysis has to be made.

Then the exporter may or may not take the policy to his bank. Frequently, he just wants that insurance. If he goes to his bank he uses the policy as additional collateral so that his domestic credit will not be curtailed as a result of his foreign sales. Our job is to increase his foreign sales through credit availability.

Mrs. SULLIVAN. Mr. Chairman, I have been in contact with a number of small businessmen in my area who want to sell to foreign countries and they have had a great deal of difficulty because sometimes it takes 6 months or a year for them to get their money back, their payments back. I have a number of questions, Mr. Chairman, that I would like to submit and have Mr. Linder answer at his convenience.

The CHAIRMAN. Without objection, proceed. You can answer them when you examine your transcript.

(The questions and answers follow:)

Mrs. SULLIVAN. How easy or how hard is it for a small business concern to obtain insurance?

Mr. LINDER. It is very easy for a small business firm to obtain insurance. All that needs to be done is for the exporter to contact his local insurance broker who will assist him in filling out a simple application form which is forwarded to the FCIA for processing.

Mrs. SULLIVAN. As you know, from a case I called to your attention, Mr. Linder, some small firms feel the insurance is not adequate to protect them against credit default and the cost of the insurance is high. I would like you to comment on that.

Mr. LINDER. Allegations that the cost of insurance is high and the protection against credit default inadequate are not in accord with the facts. The cost of insurance is competitive, on the average, with the cost of insurance available in other countries. The protection provided is as good as that provided by any of the foreign insuurance systems and is better than most.

Mrs. SULLIVAN. What does the insurance cost and is there a flat rate which is the same for small business as well as large?

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Mr. LINDER. The average premium paid for short-term comprehensive insurance is 42 cents per hundred dollars. The premium for a typical medium-term insurance policy covering a 3-year credit is $1.61 per hundred dollars. A typical guarantee fee for a similar transaction would be $1.16 per hundred dollars.

No distinction is made in the rate schedule between small and large business. The size of the transaction also does not affect the rate, which varies with the term of the credit and the classification of the foreign market to which the export is being sent. All countries are classified according to the Bank's judgment of the risks of exporting to them.

Mrs. SULLIVAN. Do you know from the experience of the Bank and the inquiries you may have made, are American firms now competing vigorously in foreign trade?

Mr. LINDER. While many companies do compete very actively in international trade, many other firms have relatively small or no foreign sales. The continuing tendency among American businessmen is to concentrate their attention on the large domestic market. The demands generated by the Vietnam war have further accentuated this tendency.

Mrs. SULLIVAN. Are they able to bid competitively on contracts?

Mr. LINDER. Our information on competition for contracts is fragmentary. Many U.S. firms do compete vigorously around the world and keep up-to-date information on projects that might utilize their goods and services. Other firms appear to limit their overseas interest to the best countries or to projects financed by the U.S. Government or by the World Bank. Domestic economic expansion plus construction opportunities in Vietnam have deflected somewhat the resources of a number of firms from other overseas business. In some areas; that is, Africa, AID has found little response to tenders even though the construction contract is tied to U.S. firms.

Mrs. SULLIVAN. Are they actively working on this and giving good service on replacement parts, and so on, in order to get repeat business? I ask this because some years ago when we made some investigative trips these things were not happening. Our American businessmen were merely taking orders abroad, not selling and not trying to understand the needs of foreign buyers, and I would like to know what is the situation now?

Mr. LINDER. Our experience is that most American firms give excellent service on replacement parts, and so forth, in order to win business. Frequently this is a strong factor in the preference shown for U.S. capital goods by overseas buyers. Many U.S. firms have established supply depots abroad and also have trained local personnel to service the equipment that they supply. Other firms have found that the use of air transport enables them to furnish critically needed spare parts on short notice. In general, firms strongly committed to foreign trade have found it necessary to provide servicing and followup facilities similar to those in the United States, if they wish to stay in foreign trade.

The CHAIRMAN. Mrs. Dwyer?

Mrs. DWYER. Thank you.

On page 15 of your statement you say:

The committee met with the Board and senior officials of the Bank for a full day last fall, during which the operations of the Bank were reviewed and the substance of the bill before you was fully discussed.

Was the question of expanding East-West trade discussed in connection with this legislation?

Mr. LINDER. It was not discussed in connection with this legislation because, as I indicated to Mr. Fino, the amount of East-West trade which we expected to do or expect to do today is very small in relation to the amount of our business and, therefore, we would not have considered it in thinking about the amount of additional lending authority required. But our advisory committee has discussed East-West trade and I can recall no negative voice about our doing this business. I am sure the Fiat deal has been discussed with them and not a single negative voice was expressed by any of those men whose names I list.

Mrs. DWYER. Thank you very much. That is all.

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The CHAIRMAN. Mr. Ashley.

Mr. ASHLEY. Mr. Linder, bearing in mind, of course, that all exports on the United States are subject to the Export Control Act under the administration's Department of Commerce, and the State Department has primary responsibility with the President, of course, for determining foreign policy, with the Exim operating in a narrower area of simply financing American exports which have hurdled this, I would like to ask you two questions. Is it not true, first of all, that we are, in fact, moving into a period of growing grade competition with our Allies in Western Europe for Eastern European markets, and secondly, if we begin to put restrictive riders onto such bills as the one before us, which would impede, of course, your Bank, which probably fosters more exports than any other agency, would this not seriously hamper our balance of payments and would it not seriously do damage to our ability to compete for world trade?

Mr. LINDER. I think it is very clear, Mr. Ashley, that we are facing competition. If the possibilities for trade between the United States and Eastern Europe are substantially increased, this will become more important.

As of today, as I say, the amount of trade between the United States and Eastern Europe, as compared with trade between Western and Eastern Europe, is much smaller than it should be if one compares our GNP to Western Europe's.

I have no doubt at all that if we impede this trade in any way that there will be an adverse effect on our balance of payments. If we make it more difficult for American businessmen to do business in the East through regulation of one kind or another, this, obviously, has a bad effect on our exports and since Eastern Europe's payment record thus far is not subject to any criticism, at least so far as we know, it is reasonable to suppose that our balance of payments are going to be adversely affected if we do not have accounts receivable which will be paid.

Mr. ASHLEY. Secondly, in your latest annual report covering the period July 1, 1965, to June 30, 1966, you show dealings with only two Eastern European countries; one, a $600,000 guarantee and the other a $50 million guarantee involving trade with Yugoslavia. They amount to slightly over 2 percent of the total transactions with which the Eximbank was involved during this period. The total dollar amount of transactions during that period were slightly over $2 billion. Since your dealings with East-West trade during that period were practically infinitesimal, I would like to ask this: First, have you had any kind of substantial increase in East-West trade since your June 1966 report was published and, if so, what approximately has been the amount of your involvement in East-West trade since last June?

Mr. LINDER. No; no substantial increase. During the 9 months of this current fiscal year we have done a total of $23.9 million of which $16.7 million has been in guarantees of the financing of the sale of agricultural commodities to Hungary. The balance has been $6.9 million of capital goods to Yugoslavia and $300,000 of capital goods to Bulgaria. That accounts for the $23.9 million.

Mr. ASHLEY. We are talking, then, about a level of 2 percent financed by Exim with the Eastern European bloc. That indicates—let us answer it this way—the charge that the chief purpose of the bill before

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us is to expand trade with Communist nations—is it your understanding, has it ever occurred in your discussions with the President, or any department or agency of the Government, that the chief purpose of the bill before us is to increase trade with the Soviet bloc?

Mr. LINDER. I am positive that was not the purpose and was never considered the purpose. We in the Bank originated this legislation. We in the Bank discussed it with the other departments of the Government, including the Bureau of the Budget. We persuaded the Bureau of the Budget that the amount required was consonant with our current operations. As a matter of fact, the amount is extremely conservative in relation to our rate of operation, because as I indicated, during this fiscal year we expect to do some $3.5 billion worth of business; and of that, something close to 1 percent will have been committed to finance trade with Eastern Europe.

Now, if we assume that we will have net increases in our commitments over the next several years in the order of the increases of the past few years, then the $4.5 billion of additional lending authority which we are requesting will not begin to last us even if you exclude all Eastern trade. Eastern trade just has no relevance to this. As I say, it is running at something like 1 percent of our total authorization at the present time.

Mr. ASHLEY. Finally, reference has been made, Mr. Linder, as to the capability of the Communist bloc to supply transports to Hanoi and the North Vietnamese forces. Is it not your understanding that if the transaction that has been put together by the Fiat Co., and the Soviet Union, if that goes into effect as scheduled, that the first automotive unit will not be delivered before 1970?

Mr. LINDER. It is my understanding that that is true, because we do not expect the plant to be finished before that date.

Mr. ASHLEY. Is it not also true that even if the United States does not furnish the $50 million—not the 80 percent of 75 percent that was alluded to, but the $50 million of machine tools in question, that these tools can and will be purchased elsewhere in Western Europe and that the plant in any event will go into production and produce units in 1970?

Mr. LINDER. The total amount being financed outside of Russia, as I understand it, is some $300 million. And the total cost of the plant is something like $700 million or $800 million. Obviously then, the $50 million is not a major portion of this operation. And I know of nothing unique about these tools. I am not suggesting that American tools are not as good and may be slightly better, but I am sure that Volkswagens, Fiats, and Renaults are being produced in Europe without great amounts of American tools being used in those plants. It is true we supplied some in the early days after the war and Eximbank has financed machine tools for Fiat's plants in Italy in recent years, but I do not think that the automobile industry in Europe is a great buyer of American machine tools today.

The CHAIRMAN. Mr. Halpern?

Mr. HALPERN. Mr. Chairman.

I wish to commend you, Mr. President on the outstanding leadership you have given to the Export-Import Bank. Your dedication to this difficult—to say the least, difficult—but vital aspect of public service is most commendable. In fact, I feel that your role in the Bank is

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one of its great assets and credits, so my compliments to you, Mr. Linder and to your able staff.

I do have a few questions. Time does limit us and I hope that I will have the opportunity, Mr. Chairman, to submit to the President of the Bank some questions in writing.

The CHAIRMAN. That is agreed upon.

Mr. HALPERN. Most of the Western European countries have institutions like the Export-Import Bank; do they not?

Mr. LINDER. Somewhat like it. Certainly large insurance and guarantee institutions.

Mr. HALPERN. Do they help institute trade with Eastern Europe nations? They do much more business than we do?

Mr. LINDER. In Eastern Europe; that is correct.

Mr. HALPERN. What has been their experience, do you know? And what are the defaults on the part of the Soviet?

Mr. LINDER. I know of no defaults on the part of any Eastern European countries. I can say categorically that I believe all the insurance and guaranteeing sources which exist in Western Europe for the purpose of performing a function comparable to that of the Export-Import Bank do issue guarantees on trade between private companies in Western Europe with Eastern European Governments or Government agencies as the buyer.

Mr. HALPERN. Is it true, Mr. Linder, that U.S. commercial banks, and so forth, will not finance export deals with Communist countries without the facilities or guarantees of the Export-Import Bank?

Mr. LINDER. I think that is a fair statement. I would not say that a commercial bank might not do a very small transaction if they got good balances. If one of those countries happens to carry balances in New York the banks might perfectly well do that as an accommodation. However, I would like to make the point, Mr. Halpern, which I did not make earlier, that even in the case of Western countries which have unquestionably good credit, our services are very, very frequently necessary. The United States cannot sell cotton to Japan and get our commercial banks to take that even on 1-year terms.

Now, there is a great deal of commodity business going on in this world on 3-year terms. You know the Canadians sold wheat on 3-year terms. If we cannot get the commercial banks in the United States to take a transaction for the sale of $70 million of cotton to Japan, which has been a repetitive transaction for many years, it stands to reason that they will only very rarely finance export sales to Communist countries without the Bank's guarantee.

Mr. HALPERN. A recent Exim Bank prospectus listed some $50 million in defaulted loans from the United Arab Republic. Why did we make those loans and what is the status of these loans now?

Mr. LINDER. I think in terms of the total amount of business we do in the world our loans to the United Arab Republic have not been very large, if I may say so. We have, presently outstanding, some $23 million of loans to the United Arab Republic.

Mr. HALPERN. $23 million?

Mr. LINDER. $23 million. They owe us. This is an accumulation over a period of time. These loans were not made recently. They are in default at the present time to the extent of $1,800,000 of principal, and $900,000 of interest.

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Mr. HALPERN. May I interject when the last loan was made, Mr. Linder?

Mr. LINDER. Our last loan, other than the minor guarantee, was made in June 1963 for electric locomotives, on which there remains $9.3 million outstanding.

Mr. HALPERN. Were they in default at that time?

Mr. LINDER. No sir; they were not. This is the only time in the 6 years that I have been in the Bank that they have been in default for more than a month or two at any one time without correcting the default. This time they have only been in default for relatively few months. To be more precise, I don't think that the default has been going on for more than about 4 months.

Mr. HALPERN. I have some further questions, Mr. Chairman, in line with this discussion. But in view of the time I must yield back. I would like the opportunity to continue this either in writing or some other way.

The CHAIRMAN. You may submit them in writing.

Mr. HALPERN. I would like to discuss the Indonesian situation with you.

The CHAIRMAN. Obviously we must conclude these hearings for today.

We will commence tomorrow with Mr. Moorhead questioning the witness. We will just have to ask you to come back.

We will stand in recess until 10 o'clock tomorrow morning when we will have the continuation of the hearings with Mr. Linder as the witness.

(Whereupon, at 12 o'clock noon, the committee was recessed, to reconvene on April 12, 1967, at 10 a.m.)

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TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945

WEDNESDAY, APRIL 12, 1967

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to recess, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Multer, Mrs. Sullivan, Reuss, Moorhead, St Germain, Gonzalez, Minish, Hanna, Gettys, Annunzio, Rees, Bingham, Galifianakis, Bevill, Kyros, Widnall, Fino, Mrs. Dwyer, Brock, Clawson, Johnson, Stanton, Mize, Lloyd, Blackburn, Brown, Williams, and Wylie.

The CHAIRMAN. The committee will please come to order.

We have letters from the Department of State and the Department of Commerce. I feel it would be appropriate to put them in the record at this point. That does not dispense with their personal appearance if the committee decides to call them up here personally.

Without objection we will place them in the record at this point.

(The letters follow:)

DEPARTMENT OF STATE,
Washington, April 11, 1967.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I would like to comment on questions members of your committee raised during testimony this morning by Mr. Linder, President of the Export-Import Bank. These points concern U.S. policy of encouraging trade with the nations of Eastern Europe at a time when we are fighting the Communist forces from North Vietnam.

President Johnson has made it clear that in a world of nuclear weapons the United States has an obligation to mankind to seek areas of peaceful cooperation with the Soviet Union and other countries of Eastern Europe, even while we are resisting Communist aggression in Southeast Asia and elsewhere. The importance of Vietnam and our firm resolve to honor our commitments there must not obscure other international developments which may be equally important to our national security and, in fact, to the effort in Vietnam.

For example, the Sino-Soviet split and the continuing trend among the Eastern European countries toward greater national independence are major developments affecting not only our own security but world peace and stability. Our response to such developments must be positive and, at the same time, compatible with and supplementary to our objectives and efforts in Vietnam. Trade in peaceful goods is an important instrument of that policy.

We believe that the surest way of influencing the countries of Eastern Europe to develop in ways compatible with our goals of peace and freedom is to bring the peoples of that area into the closest, most varied, and most pervasive contact possible with our free society. We seek to encourage both the individuals and the nations of that area to assert their freedom and independence. There is

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clear evidence that the once-monolithic empire of Stalin has been deeply fr mented, both within and among the countries of Eastern Europe. Individu are freer and countries more independent than they were.

We believe it to be important to use our influence to encourage this proce The daily almost routine interaction of businessmen, discussing concrete p posals and taking specific actions, is one of the best ways we have of introd ing the ideas, the habits, and the aspirations of free men into Communist min Governments, too, can be encouraged by the prospects of buying from and sell to us to seek their own interests instead of following outside direction. We sho not expect miracles of these processes, but we would be foolish to deny ourse the real chances for easier international relations and for greater personal f dom which East-West trade offers.

I am not referring to trade in strategic goods. We have trade controls wh prohibit the export of strategic goods to Communist countries and we do not tend to abandon those controls. Thus, as an example, any equipment purcha from the United States for the automobile plant Fiat has contracted to build the U.S.S.R. will be examined by the Department of Commerce on a case-b case basis in consultation, if appropriate, with the Department of Defe and other agencies. If, in connection with this transaction, the Department Commerce should receive license applications for machinery or equipm that would make a contribution to the Soviet military potential, such ap cations would be denied.

Our trade with the Soviet Union and Eastern Europe is relatively sm both for us and for them. Of the total free world exports to Eastern Euro including the Soviet Union, of more than $6 billion, our share was $200 m lion. This level of trade does not give us much leverage in dealing with th countries. Even if we were to completely eliminate our sales to Eastern E ope, it would not be a sufficient inducement to force them to stop their s port of North Vietnam. Such action on our part would, however, make it i possible for us to encourage individual Communist countries to pursue mo independent policies. It would more likely draw the Communist nations toget and strengthen the hands of elements within those countries, which are pa ticularly hostile toward the United States.

In carrying out our worldwide responsibilities, it is important that we ke all our opportunities and challenges in mind. Even while we resist aggre sion in Vietnam, other problems must not escape our attention. We could n by embargoing all trade with Eastern Europe, seriously hamper our Comm nist enemies. We can, however, use trade as one major instrument to promo more constructive relations.

We should have no illusions. If we do not sell peaceful goods to the natio of Eastern Europe, others will. If we erect barriers to our trade with Easte Europe, we will lose the trade and Eastern Europe will buy elsewhere. But w will not make any easier our task of stopping aggression in Vietnam nor i building security for the United States.

Sincerely yours,

NICHOLAS DEB. KATZENBACH, *Acting Secretary.*

THE SECRETARY OF COMMERCE,
Washington, D.C.

Representative WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: You have asked me to comment on the proposed Fi Soviet automobile plant which, I understand, was brought up in your Committe review yesterday of H.R. 6649 and H.R. 6650 concerning the Export-Import Ban

The Commerce Department has given a great deal of careful study to this p posal as have other U.S. departments and agencies. An Export-Import Bank loa to Istituto Mobiliare Italiano (IMI) of Italy to finance purchases of U.S. equi ment for this plant had the full support of my predecessor and has mine no

I am convinced that most, if not all, of the equipment that may be soug from the United States for this plant can be licensed pursuant to the Expo Control Act for ultimate delivery to this U.S.S.R. plant without any risk to o national security and welfare. The product of this plant—light automobiles— a peaceful item which will in the years to come provide better transportati and increase the standard of living for the people of the U.S.S.R. even thou

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first customers may be their government officials. The proposed plant is rdly the type to be adapted for production of military vehicles or equipment. rthermore, we find no evidence that the U.S.S.R. is unable to meet the autotive needs of its military programs. It is also quite clear that with or without S. equipment or financing the U.S.S.R. can obtain this and other modern light tomotive manufacturing plants from Italy and other Western European ntries.

Thus, I conclude that nonparticipation by U.S. firms in the Fiat-Soviet transtion will neither prevent increased production of substantial quantities of ht automobiles in the U.S.S.R. nor contribute to U.S. national security and lfare. On the contrary, such self-denial will deprive U.S. business and labor the benefits of such exports, deprive us of the balance-of-payments benefit from ch exports and exacerbate our relations with Italy and the U.S.S.R. to no ail.

Some feel that we should not trade with the U.S.S.R. and East Europe while stilities in Vietnam continue. As you know, however, President Johnson has ocated the expansion and intensification of peaceful engagement with East rope despite the problems created by the Vietnam situation. This course is ng pursued for the very purpose of demonstrating to those countries that opportunity remains open for the continuation of peaceful and friendly relans with us—a court which will be more beneficial to them than any other they ght follow. Naturally, you can be sure that we would not permit any trade goods and technology that would strengthen their military potential to the triment of our national interests.

It is true, as the March 1 report of your Subcommittee on International Trade nts out, that some of the machine tools for the proposed Fiat plant could put to strategic use instead of to their normal use in the production of civilian tomobiles. However, we have assured your subcommittee, and I reassure you w, that the Department of Commerce will very carefully review every applicaon for machine tools of that nature. In that connection, we shall consider all the factors so well summarized on page 2 of your subcommittee's report:

> . . . The availability of comparable equipment abroad and the effectiveness of the denial of a license would be determined. The likelihood of the tools being diverted from automobile production to strategic uses would be very carefully assessed. Bearing on this would be the degree to which the equipment is an integral part of a large package. The demand for such tools by U.S. industry for use in filling defense orders also would be a prime consideration. Additionally, the Department would take into account the quantity of the equipment involved and the significance of any incorporated technology that might be extractable.
>
> In the final analysis, all approvals would be subject to a determination that the shipment of the equipment to the Soviet Union would not have an adverse impact on our requirements for such equipment in the United States, nor make a contribution to the U.S.S.R. that would be in any way detrimental to U.S. national security and welfare.

Therefore, Mr. Chairman, I strongly urge that your committee approve the proposed extension of the Export-Import Bank's authority without any amendment that would restrict the Bank's ability to support peaceful transactions of this sort.

Sincerely yours,

ALEXANDER B. TROWBRIDGE,
Acting Secretary of Commerce.

The CHAIRMAN. Mr. Linder, you may be recognized to proceed and Mr. Moorhead will start the questioning this morning.

STATEMENT OF HAROLD F. LINDER, PRESIDENT AND CHAIRMAN OF THE BOARD, EXPORT-IMPORT BANK OF WASHINGTON, ACCOMPANIED BY WALTER C. SAUER AND B. JENKINS MIDDLETON—Resumed

Mr. MOORHEAD. Thank you, Mr. Chairman.

Underlying the Soviet-Fiat automobile deal is the thought of our Government and our people that increasing peaceful trade relations

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with the Soviet Government and its people will help to bring about greater understanding and mutual benefits. It is only natural that there be a concern lest this action at this time undermine our position in Vietnam. In my opinion Secretary of State Dean Rusk, in his letter of May 11, 1966, transmitting to the Congress the proposed East-West Trade Relations Act, provided the answer to this crucial question when he wrote:

> We are reaffirming in Vietnam—as we have on many earlier battlefields—our determination to aid free and independent nations to defend themselves from destruction by Communist aggression or subversion. But determined resistance to such force is only part of our strategy to maintain a peaceful world.
>
> It has equally been our purpose to demonstrate to the Communist countries that their best interests lie in seeking the well-being of their peoples through peaceful relations with the nations of the free world. We want the Soviet Union and the nations of Eastern Europe to understand that we will go step by step with them as far as they are willing to go in exploring every path toward enduring peace. We require only that our willingness and our actions be genuinely matched by theirs.
>
> We are confident that this policy is sound even when we are fighting against Communist weapons in Vietnam. Indeed, it is when we are resisting force with force that it is most important to hold open every avenue to peace. We need to make unmistakably clear to all Communist nations in Eastern Europe that their best interests lie in economic development and peaceful trade, not in support of futile attempts to gain advantage through the use of force.

I wonder if you could tell us anything—do you have any information about the East-West Trade Relations Act and the relationship which the Eximbank would have, if Congress should enact this bill?

Mr. LINDER. I don't believe that our relations through East-West trade would be altered at all from what they are today.

Mr. MOORHEAD. I meant the act itself, the proposal.

Mr. LINDER. I suppose that if most favored nation treatment were granted to the Eastern European countries that they would feel that trade could be increased somewhat with the United States. I would hope that that would be the result.

But the ability of the Export-Import Bank to finance such trade would not be altered by the passage of that act. The only way in which our operations might be affected is that there might be a greater volume of exports to these countries and therefore greater demand for Eximbank's assistance in financing such sales.

Mr. MOORHEAD. Has that bill been sent up to the Congress yet, do you know?

Mr. LINDER. Not as yet. However, Mr. Katzenbach, the Under Secretary of State has told me that he has been informed by Chairman Mills that hearings will be held on that legislation and that Chairman Mills is prepared to have everybody know that he intends to hold such hearings.

Mr. MOORHEAD. That is somewhat of a reverse position of last year, as I recall it.

Mr. LINDER. I don't believe any hearings were held last year.

Mr. MOORHEAD. Mr. Linder, what statutory restrictions or congressional restrictions govern banking in promoting trade with Communist nations?

Mr. LINDER. We have certain restrictions at the present time which are included in the annual appropriations legislation. One such restriction is a limit on the total amount of business that the Export-Import Bank is permitted to authorize in any one year. Also included in that

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legislation for the past several years has been a provision which says that none of the funds made available because of the provisions of this title shall be used to guarantee the payment of any obligation incurred by a Communist country or to finance trade with Communist countries unless the President determines that such financing is in the national interest and reports such determination to the Senate and House of Representatives within 30 days after such determination.

Mr. MOORHEAD. So even if we enacted this bill that restriction would continue until the Congress reversed it?

Mr. LINDER. Yes, that is clear.

I think I indicated yesterday that if any restriction were to be continued, I would think it far more appropriate to have it where it presently is, and that is in the appropriations legislation. The reason for this is that the Congress has the opportunity to review the appropriations legislation each year, whereas we come before your committee under normal circumstances only once every several years.

We, of course, make it a policy to inform the chairman of your committee and the chairman of the Senate committee whenever we do anything that represents any sort of deviation from our former practice, but we do not have to request legislation from you on an annual basis.

Our own legislation is, I am happy to say, conspicuously free of appendages and amendments and so on which do not relate to the main purpose of the Bank. I would hope, and I would strongly urge, that it be continued that way, and that if there are to be any special restrictions they be included in the Appropriations Act.

Mr. MOORHEAD. Mr. Linder, as far as authorizing legislation is concerned, do you think that rather than this bill, that the Export Control Act is the proper vehicle for the Congress to express its will on the policy of trade with Communist countries?

Mr. LINDER. I most assuredly think so, Mr. Moorhead.

Mr. MOORHEAD. If this country should adopt as a policy, as indicated by the East-West Trade Relations Act and the President's statements about building bridges and his statement in the letter of the Secretary of State, do you, if we adopt that policy, and I recognize this is not your function, to adopt foreign policy, but if we should, do you believe that the Appropriations Committee rider is contrary to this restriction and should be eliminated?

Mr. LINDER. I think that if we adopted the policy that the President recommended there would be no need for him to make a determination or determinations, and I think this is clear from the fact that the President is urging passage of the East-West trade legislation on which Chairman Mills will hold hearings.

Mr. MOORHEAD. And further, would I take it that the proper vehicle for protecting the national defense interests of the United States would be the Export Control Act?

Mr. LINDER. I would think so.

Mr. MOORHEAD. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Mize.

Mr. MIZE. Thank you, Mr. Chairman.

I think it is most unfortunate that this bill, which is basically merely extending the life of a very, very worthwhile institution is being jeopardized because of this East-West trade relations situation.

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But, regardless of how naive and provincial you may think some of our constituents are, they consider this whole matter one of trading with the enemy.

I was on the delegation that went to Rome and the Soviet Union in December and I can assure you, my good friend Mr. Fino, even if his amendments prevail it is not going to stop the Soviet-Fiat automobile plant from being built. It is going to built and going onstream in 1970 whether they buy the machine tools from us or not. The chairman of Fiat told me that quite frankly in December.

I do not think I have any other questions.

The CHAIRMAN. Mr. Minish.

Mr. MINISH. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Lloyd.

Mr. LLOYD. Mr. Linder, I would first like to express respect for the service which you are contributing and as a new member of the committee there are a few elemental questions I would like to ask if you will indulge me the courtesy.

The matter of policy in making a loan in the Communist bloc area. I believe you suggested yesterday that this policy was not made entirely by you, that you were performing a bank function, but that you did agree with the policy.

What are the mechanics of the Secretary of State or the White House or anyone else—what mechanics are used when they participate in the making of this policy? Do you confer with them regularly, do they confer with you? Are you in constant communication considering the policy, in the matter of making a loan of this type.

Mr. LINDER. Yes, in general our liaison would be with the State Department, but the White House is also close and readily available to me. A representative of the State Department is present at our formal Board meetings which occur weekly. We are very sensitive of course to the overall policy of the United States and would not want our financing to be contrary to that policy.

Furthermore, any significant loans which we make have to be approved by the National Advisory Council on International Monetary and Financial Problems or NAC, for short, which is comprised of the Secretary of the Treasury, who is Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Federal Reserve Board, and the Chairman of the Export-Import Bank.

The Council has a staff which is constantly reviewing our memorandums which are the bases for decision by our Board. By the time our Board is ready to act on any direct loan, or on any guarantee or insurance policy in excess of $5 million, or on terms longer than 5 years, the members of the staff of the NAC have received a copy of our detailed memorandum and the recommendations of our own staff. Moreover, our own Board does not act until such time as the NAC has given us their approval.

I might say that the liaison is good enough so we usually have not only a good idea but we are pretty positive on how the NAC is going to act. I don't think there has been a failure on the part of the NAC ultimately to approve any transaction since I have been with the Bank, although this does not mean that it is not debated. It is debated at some length and sometimes we have to wait 10 days before there is a reply from the NAC, and we, of course, are one of the participants in that debate.

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Mr. LLOYD. Using for example, the loan in the Fiat situation for the purchase of machine tools, do you consider—do you take into consideration the necessity for economic gain in the machine-tool industry, the matter of employment, whether socially or economically desirable to the industry or to the economy of this country to stimulate the economy by making such a loan?

Mr. LINDER. Surely, that is why we are in business. Originally, that was the only reason for our being in business. Today, our activities have taken on added significance because of their favorable effects on the unfortunate balance-of-payments situation in which the United States finds itself. But if you had looked at the Export-Import Bank 10 years ago I think you would have seen that its principal purpose was to stimulate and aid the American economy through giving more employment and providing our exporters with more business.

Mr. LLOYD. Is that a general thing or in this machine-tool situation is that specific?

Mr. LINDER. That is a general thing. Any time we assist an exporter, that means more business and more employment, whether in agriculture or industry.

Mr. LLOYD. Do you sell participations?

Mr. LINDER. Yes, we do.

Mr. LLOYD. How are they marketed and what is the return?

Mr. LINDER. We do a whole combination of things, Mr. Lloyd, in that direction.

Mr. LLOYD. My time has expired. If I may present that question to you in a more specific manner I will appreciate your answer.

Mr. LINDER. Certainly.

Mr. LLOYD. What are the mechanics used in the marketing of participation sales?

What is the minimum amount of sales, if any? And what is the interest and maturity and also, who handles the sales?

(The information requested follows:)

The Bank has marketed participation certificates in a number of ways. For many years participations in individual Eximbank credits were sold on a nonrecourse basis to commercial banks, which usually bought some of the near-term maturities of undisbursed or disbursed Eximbank credits. These sales were rather sporadic and relatively small in volume.

In 1962, the Bank embarked upon two major programs for marketing participation certificates. One program has involved the sale of participations, principally to investors in the United States, in pools of loans held by the Bank in its portfolio, originally known as Eximbank Portfolio Fund sales and more recently as Eximbank Investment Portfolio offerings. Some $2.6 billion of participations have been sold in this manner. The second program has been directed at the sale of participations to investors abroad as a means not merely of providing funds for the Bank's operations but also to assist the U.S. balance of payments. Since the initiation of this program the Bank has sold some $600 million of participations abroad through negotiations directly between Eximbank and the purchasers, most of which have been governmental or quasi-governmental financial institutions but with a substantial volume of purchases by private financial organizations.

I assume, however, that you are more interested in the mechanics of the Bank's current method of selling participation certificates in the United States. Between 1962 and 1966 we sold six issues of Eximbank Portfolio Fund participation certificates by offering them directly to commercial banks in the United States which had done business with Eximbank in the past. Toward the end of last year, however, it became evident that with the tight money market situation the commercial banks did not have the funds with which to make substantial purchases of these participations. We therefore concluded that it would be in our

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own interest and that of the government generally to have a public offering of fully-negotiable participation certificates, which we believed could only be done effectively through an underwriting group. The Bank therefore asked four major banks and eight major investment banking houses, which had previously evidenced the greatest interest in placing Eximbank-guaranteed obligations, if they would be prepared to organize an underwriting syndicate to market future offerings of participation certificates. This management group proceeded to organize a group of over 100 banks and brokerage houses throughout the country to underwrite and sell Eximbank's future offerings.

When Eximbank decides that the time is appropriate for a new offering of participation certificates, we enter into an agreement with the underwriting syndicate for the firm purchase by the syndicate of the entire offering of guaranteed participation certificates at a price agreed upon between the Bank, with the advice of the Treasury Department, and the underwriting group. The underwriting group then makes a public offering of the certificates and thereafter has full responsibility for placing the issue in the market.

We have made two offerings under these arrangements, one in February and one which is now in process.

Participation certificates are issued in a minimum face amount of $5,000.

In our first public offering of February 20, 1967, we sold $250 million of participation certificates maturing in 4 years with interest at 5 percent and $250 million maturing in 15 years with interest at 5.10 percent, both of which sold at par. In our second public offering, which will be dated May 4, 1967, $250 million of certificates will be offered with a 3-year maturity and $150 million will be offered with a 7-year maturity, at interest rates still to be determined.

The underwriting group I mentioned earlier handles the sales.

The CHAIRMAN. Mr. Annunzio.

Mr. ANNUNZIO. Thank you, Mr. Chairman.

Mr. Linder, I want to commend you for your statement. You do not have to be a lawyer or an economist to understand it.

Mr. LINDER. Thank you, sir.

Mr. ANNUNZIO. It is brief and to the point.

I am interested in getting to the basic fundamentals in this bill and not in philosophical discussions that will lead us nowhere and I would like brief answers because your answer is part of my time.

All you are asking the committee to do today is to approve a bill to extend the life of the Bank for 5 years?

Mr. LINDER. No, that is not all, if that was the question. It is one of the things.

Mr. ANNUNZIO. Secondly, as I understand it, you want to take "of Washington" out of the name of the Bank?

Mr. LINDER. That is correct.

Mr. ANNUNZIO. Third, as I understand it, you are not asking for authority from the committee to borrow more money, but you are asking for lending authority—your increase in lending authority amounts to $4.5 billion—from $9 billion to $13.5 billion?

Mr. LINDER. That is correct.

Mr. ANNUNZIO. Is there anything else that I left out?

Mr. LINDER. Yes, sir. Within the $4.5 billion we have asked for an increase of $1.5 billion in our right to guarantee and insure on a fractional reserve basis. We presently have a $2 billion right within the $9 billion and we are asking for $3.5 billion right within the $13.5 billion. We are also requesting a minor amendment to increase the allowance for our advisory committee.

Mr. ANNUNZIO. Thank you, sir.

Everyone knows that by 1970, not three nations, but 20 nations will have nuclear warheads, but we will confront that problem when we get to it in 1970. What we must do now is to help people help themselves. This is the way to fight communism.

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Now, in this particular situation I want to ask, when you make a loan to a country, does extending that loan help people to work? Does it help employment? Does it help the living conditions of people of that particular country where you make this loan?

Mr. LINDER. I take it you are speaking of a loan helping the recipient of the loan—it is clear that it helps the American manufacturer to do the business.

Mr. ANNUNZIO. I understand that. When we do business, the American worker is helped. It increases his income, it increases his standard of living. Your bank then is interested not only in money, but also in people.

Mr. LINDER. We are interested in people both in the United States and abroad.

Mr. ANNUNZIO. All right, how does it help people abroad?

Mr. LINDER. I will give you one example very simply.

We announced only a couple of days ago that we have authorized a large loan to Chile in connection with the expansion of a very large copper property in Chile which was owned and controlled 100 percent by an American company. The American company has agreed, and I think very sensibly, and on a very fair basis, to sell a 51-percent interest in that copper property to the Chilean Government. The American company will retain 49 percent. It is being paid by the Chilean Government for the amount of its 51-percent investment; that is to say, the amount that it is selling. Eximbank was the catalyst in this transaction because we loaned, and I think on a very sound and safe basis, $110 million to the new company, with the guarantee of the Chilean Government, for the purpose of paying for the American machinery and equipment and services which will go into the expansion of that copper property being undertaken by the new company.

The project has a number of advantages. The company is not only going to expand copper production, it is also going to employ many more miners. Moreover, the company pays as high wages as any mine in Chile, and I think probably in Latin America. There is a great deal of additional housing that is going to be built. There is going to be a substantial improvement in the living conditions of those miners and the project will earn foreign exchange for Chile.

All in all we think this is an enormous advantage to Chile. Moreover, it will produce copper, a commodity which the United States needs and wants. We think this is a perfect example of a fine transaction which helps both sides, both American business and our foreign friends.

Mr. ANNUNZIO. Thank you, Mr. Linder. No further questions.

The CHAIRMAN. Mr. Blackburn.

Mr. BLACKBURN. Mr. Linder, I want to say on my own behalf I certainly enjoyed the presentation and I am in sympathy with the purposes of your Bank.

At the same time, however, I do represent a number of people who are somewhat out of sympathy with the idea of providing any assistance to the Soviet bloc, particularly in view of the hostilities that are taking place in Vietnam.

As I understand your position, you are in agreement with and in sympathy with the President's proposal and State Department proposals to increase trade with eastern bloc nations.

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Now, inasmuch as that is your position and the position of the executive branch of the Government, as I understand what you said previously, the proper place for the Congress to effect its policy, if the congressional policy happens to be contrary to that and yours and the President's, would be through the Export-Import Control Act.

Mr. LINDER. Yes; either through that act or through the appropriations act.

Mr. BLACKBURN. If this committee should approve the changes in this act that we now have before us this would not be construed by you as being an approval by this committee or any member of this committee of our increased trade with the Soviet bloc?

Mr. LINDER. I think this is correct.

Mr. BLACKBURN. I am a little bit mystified why we would like to change the name—of course, there are multiple purposes in all of our foreign relations. They are not as simple as a bank loan. We hope to achieve some propaganda value on these things to show we are trying to help the less fortunate nations. For myself, I would like for you to—not today—I think my time is about out, but in your responses, written responses to our questions, explain why it would not be to our advantage to have the name "Export-Import Bank of the United States"?

Mr. LINDER. I can say right now I don't think it would be to our disadvantage.

Mr. BLACKBURN. You do not think it would be to our disadvantage?

Mr. LINDER. No; I don't think so. However, I think the shorter name may be the better one.

Mr. BLACKBURN. One problem in dealing with our constituents, a lot of them never heard of your organization and some of them have the idea that this is a United Nations affair or something of that sort. I think for the benefit of the public, if you said "Export-Import Bank of the United States," I think they know the public is participating in this.

Thank you.

Mr. LINDER. Mr. Blackburn, I would just like to say one thing in addition.

You spoke of the State Department and the President. I would just like to add that there is clear evidence that the Joint Chiefs of Staff, the Department of Defense, and the Department of Commerce, are of a similar mind with specific reference to the Fiat loan and that a good many of the legislators are, I believe, behind this.

Mr. BLACKBURN. Of course, we represent the people and they pay the bills. They have some weight.

Mr. LINDER. I agree entirely. That is why I concluded my statement by saying that we would not cost the taxpayers any money.

The CHAIRMAN. Mr. Rees.

Mr. REES. Thank you, Mr. Chairman.

Mr. Linder, I was another one of those that was in Eastern Europe in December looking at the Fiat transaction and also at the tremendous internal changes that have been going on in the Eastern European countries in terms of reorganization and their economy and to a certain extent of their social system.

Prior to the decisions being made to grant to Fiat a credit for the import or export of machinery, was there any consultation made with the Central Intelligence Agency?

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Mr. LINDER. A senior interdepartmental group of which CIA is a member, and which meets regularly considered the Fiat loan. And as you know, Mr. Rees, the Central Intelligence Agency made a report on the Fiat transaction which is in the public record.

Mr. REES. For the benefit of the committee could you give them in capsule form what the conclusions of the Central Intelligence Agency was concerning the development of the Fiat plant?

Mr. LINDER. I don't know that I have read it recently enough to be able to quote it accurately. I think that in the report which your subcommittee published, there was a summary in the beginning which indicated that the Soviet Union has not yet really entered the automotive age. As I recall, it said that the automobile industry in the Soviet Union is, as I am sure members of the committee know, 30 years or more behind ours.

Mr. REES. Mr. Linder, I had only hoped that you had read the report before you testified.

Mr. LINDER. I did read the report.

Mr. REES. I might paraphrase that the Central Intelligence Agency felt the transaction would bring the Soviet Union to concentrate more in consumer goods and that this tendency would provide less emphasis on the heavy industrial and armaments industry in the Soviet Union. I think this is very important when we are talking about this.

I will not ask you about the attitude of the Joint Chiefs of Staff. That was also favorable and their conclusions ran along the same lines.

Mr. LINDER. This I know and this I would have been glad to say to you. I know that while I was testifying yesterday Secretary McNamara was testifying in another committee room and said, among other things, that he believed, and the Chairman of the Joint Chiefs of Staff was sitting next to him, that time is modifying many policies, particularly within the Soviet Union and the countries of Eastern Europe, and that we can speed the process by building bridges of trade and communication wherever we can.

I merely did not want to presume, Mr. Rees, to state an absolute conclusion and identify CIA with it because I didn't remember precisely what they had to say. I know that the general thrust of the administration's position is as you have stated; and that is, the stimulation of the manufacture of automobiles is a very good thing for our relationship with the Soviet Union.

Mr. REES. Concerning the machine tools that they are proposing to export to Italy and then the Soviet Union, are you familiar with the types of tools? Are they tools that have general application or are they specifically to be used for the development of the small passenger automobile?

Mr. LINDER. I believe that they are specific tools, although we have not yet had submitted to us a definitive list or anything like a definitive list of precisely what they wish to buy.

This is all being discussed. We have, therefore, not yet had an opportunity to analyze the purchase orders that the Fiat company would wish IMI (Instituto Mobilaire Italiano), the borrower to place in the United States and which we would be asked to finance.

I have a strong impression from our talks with them that they will be, as you say, specific-purpose tools.

Mr. REES. For small passenger automobiles.

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Mr. LINDER. Yes.

Mr. REES. A statement has been made in connection with the Fiat transaction that by your granting a credit to allow for the exportation of American machine tools, that this would hurt our balance of payments.

Mr. LINDER. On the contrary. It would be enormously helpful to our balance of payments. IMI has been an excellent borrower from the Bank, and IMI has paid off their entire indebtedness to us on at least two occasions that I can recall within the past 6 years. They have come back again for additional credit. We have no doubt concerning their ability to meet their obligations, and obviously when we receive interest and principal repayments we have helped our balance of payments. When an export which we finance takes place, it is neither a plus or a minus to our balance of payments because on one side we are making a loan and on the other side we are adding to our export. When we get the payment there is a plus for our balance of payments. I see no conceivable way in which this would hurt our balance of payments.

Mr. REES Thank you very much.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Linder, would you mind tracing for me the history of the limits of the Eximbank since 1934?

Mr. LINDER. I am not sure I understand what you mean by "limits."

Mr. BROWN. Authority limitations.

Mr. LINDER. Well, I think I can do that, sir.

Since what date did you say?

Mr. BROWN. 1934.

Mr. LINDER. I am sure I cannot carry it that far back by memory. I am sure, however, that we could provide it for you.

Mr. BROWN. By and large have these changed more rapidly than every 5 years or so?

Mr. LINDER. Approximately every 5 years. In 1958 or 1957, just going back 10 years, the borrowing limit was $5 billion. It was increased to $7 billion and remained $7 billion through June 1963, when it became $9 billion and, as you know, has continued at that level since that time.

But I will be glad to put in the record the full list.

(The material referred to follows:)

EXPORT-IMPORT BANK OF WASHINGTON

HISTORY OF CHANGES IN LIMITS ON AUTHORITY OF EXIMBANK AND EXTENSIONS OF LIFE

Prior to 1939, the only limitation on lending authority of the Bank was its ability to sell preferred stock to the Reconstruction Finance Corporation. The act of Congress of March 4, 1939 (53 Stat. 510), extending the life of the Bank for a 2-year period, placed a limit of $100 million on the amount of loans which the Bank might have outstanding at any one time.

On March 2, 1940 (54 Stat. 38), the lending authority of the Bank was increased from $100 to $200 million of loans outstanding at any one time.

On September 26, 1940 (54 Stat. 962), the lending authority of the Bank was increased from $200 to $700 million outstanding at any one time. The Bank was authorized to obtain the additional $500 million from the Reconstruction Finance Corporation only for the purpose of making loans within the Western Hemisphere and upon the written request in each case of the Federal Loan Administrator with the approval of the President of the United States.

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In July of 1945 the Bank was reorganized as an independent agency of the United States with powers set forth in the act of Congress (Export-Import Bank Act of 1945, 59 Stat. 526).

The Bank was authorized to have outstanding at any one time $3.5 billion; was authorized to issue for purchase by the Treasury $1 billion in capital stock; and was authorized to borrow from the Treasury in an aggregate amount outstanding at any one time not exceeding $2.5 billion.

Pursuant to the requirements of the Government Corporation Control Act regarding Federal charters for Government corporate agencies, the Export-Import Bank Act of 1945 was amended on June 9, 1947 (61 Stat. 130), to include a time limitation to June 30, 1953, upon the authority of the Bank to make new loans.

On October 3, 1951 (65 Stat. 367), the lending authority of the Bank was increased from $3.5 to $4.5 billion; the authority of the Bank to borrow from the Treasury was increased from $2.5 to $3.5 billion; and the life of the Bank was extended from June 30, 1953, to June 30, 1958.

The Export-Import Bank Act of 1945 was further amended on August 9, 1954 (Public Law 570, 83d Cong., 68 Stat. 677). The lending authority of the Bank was increased to permit the Bank to have $5 billion of loans, guarantees, and insurance outstanding at any one time, and the amount the Bank was authorized to borrow from the Treasury was increased to $4 billion outstanding at any one time.

On June 17, 1957 (71 Stat. 82), the Congress amended the Export-Import Bank Act of 1945 by extending the life of the Bank from June 30, 1958, to June 30, 1963.

On May 22, 1958 (72 Stat. 133), the Congress further increased the lending authority of the Bank so as to authorize the Bank to have outstanding at any one time loans, guarantees, and insurance in an aggregate amount not exceeding $7 billion, and increased the amount the Bank was authorized to borrow from the Treasury to $6 billion outstanding at any one time.

On September 26, 1961, the Congress enacted Public Laws 87-311 (75 Stat. 673) authorizing the bank to issue, against fractional reserves, export credit insurance and guarantees in an aggregate amount not in excess of $1 billion.

On August 20, 1963, the Congress enacted Public Laws 88-101 (77 Stat. 128) pursuant to which the lending authority of the Bank was increased from $7 to $9 billion; the aggregate amount of export credit insurance and guarantees which the Bank may have outstanding, against fractional reserves, was increased from $1 to $2 billion; and the life of the Bank was extended from June 30, 1963, to June 30, 1968.

Mr. BROWN. Then one further thing so I have it clear in my mind.

When we are talking about $13.5 billion limits and we are talking about the insurance and guarantees up to another $3.5 billion, in effect we are talking about a maximum of guarantees of insurance of $17 billion and——

Mr. LINDER. No, we are not.

First, there isn't any additional $3.5 billion of guarantees and insurance. The additional amount is $1.5 billion in guarantees. All of the guarantees and insurance are included within the $13.5 billion figure. The total of the guarantees and insurance which could be done on a fractional reserve basis would be $3.5 billion in gross figures, but only 35 percent of that is charged to our lending authority.

Mr. BROWN. I am not worrying about the increases here. I am talking about what the limit will be if the legislation, if this legislation passes. Then the $3.5 will be—the total amount will be within the $13.5?

Mr. LINDER. That is correct.

And the $3.5 is the gross amount. It is not the 25 percent.

Mr. BROCK. Would you yield?

Mr. BROWN. Yes.

Mr. BROCK. I do not see how you can say this. Maybe I do not understand the law or the request that you are making for the change

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in the law, but as I read it, if you have $3.5 million at 25 percent, that is only $875 million which is charged against the $13.5 billion.

Mr. LINDER. That is correct.

Mr. BROCK. All right, if you take that, that leaves $12.6 billion which you can actually make in loans.

Mr. LINDER. That is correct.

Mr. BROCK. You take the $12.6 in here and you add $3.5 and you are up to $16 billion and nobody says that is not the right addition.

Mr. BROWN. That is what I said, Mr. Linder.

Mr. LINDER. Well, yes, you can calculate it that way and I retract my earlier statement. I was not thinking in those terms.

Mr. BROWN. My time has expired. Thank you very much. I would like someone to inquire of the mechanics of the approval of a loan such as the Fiat loan.

Mr. LINDER. We will.

Mr. BROWN. My time is up.

The CHAIRMAN. You can answer for the record.

Mr. LINDER. I think I have answered it.

The CHAIRMAN. Mr. Bingham.

Mr. BINGHAM. It is a particular pleasure for me to be able to extend a welcome to Mr. Linder who is an old friend and for whom I have great admiration and I compliment him on his presentation here. I do have a couple of questions.

My first question displays my ignorance in the operations of the Bank, but I am still curious to know, Mr. Linder, why you have no need to expand your borrowing authority since you are asking for expansion of your lending authority.

Mr. LINDER. Our borrowing authority is concerned with our right to borrow from the Treasury of the United States. In our opinion, the Bank, we think, is an institution which can, and has proved that it can, finance itself. Our law permits us to borrow, to discount, to guarantee, to perform almost any banking function other than issue currency. As I assured Members of the Congress in 1963, including the chairman of your committee, I believed that the Bank could be financed within the legislative authority to borrow we then had, and the Bank has proved this. I see no problem in financing such business as I foresee the Bank funding it prudent to undertake in the years to come.

Mr. BINGHAM. Thank you.

In relation to the Fiat transaction which has attracted so much comment, it seems to me that some of the comment has suggested that this was a loan to the Soviet Union or to a Soviet concern. My understanding was that this was a proposed loan to an Italian concern.

Mr. LINDER. That is correct, sir, it is a loan to Instituto Mobilaire Italiano, which in turn will relend to Fiat, which in turn, will be undertaking installation of a motorcar plant in Russia.

We are obviously under an obligation, as the administration was, to be completely frank about this. The President took the occasion of one of his speeches last October, to announce that the Export-Import Bank would assist in financing the erection of an automobile plant in the Soviet Union.

Mr. BINGHAM. Would you say that the principal purpose of this transaction was to assist in obtaining this business for American manufacturers or in assisting the Soviet Union?

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Mr. LINDER. I don't think there is any question that our principal purpose always relates to our balance of payments or employment in the United States—purely selfishly, we are an American institution and that is our concern. We don't like to do things, no good banker does, which are bad for a borrower, but we are primarily motivated by our own interests.

Mr. BINGHAM. Is that not fortified by the fact that you have already brought out, that if we do not extend this credit and if these machine tools do not come from the United States they will be obtained elsewhere in Western Europe?

Mr. LINDER. I agree completely. I think that is perfectly clear.

Mr. BINGHAM. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. Mr. Linder, I would like to express my appreciation for your very fine presentation.

As I understand it, you are not proposing any increase in the capital of the Bank or in its authority to borrow $6 billion from the Treasury.

Is there any intent on the part of the Export-Import Bank to borrow from the public by way of a participation financing route?

Mr. LINDER. Yes, there is.

We started selling participations in our loans in 1962. We made our original sales only to commercial banks. When the market for money became tight during 1965 and 1966, we came to the conclusion that the commercial bank market was not as completely useful as we hoped it would be because it could, at times, dry up. We concluded that there was no basic reason why we should not make offerings of our participation certificates to private investors which would include, among others, commercial banks.

As a matter of fact, four of the major commercial banks of the country are leaders of the syndicates which underwrite our issues.

Mr. WILLIAMS. I understand the reason for the participation financing, but I would like to suggest, since money is not as tight as it has been, that there may be a possibility of the Treasury Department borrowing the money at a lower issue rate than paying through the participation route.

Is it true that the Export-Import Bank has recently guaranteed a $15 million loan to Hungary for the purchase of agricultural commodities which runs for 3 years and included no down payment?

Mr. LINDER. That is correct. Their agreement is to pay us, and I have no doubt they will, one-third at the end of 1 year, one-third at the end of 2 years, and one-third at the end of 3 years.

Mr. WILLIAMS. Thank you.

I believe yesterday you said that since 1934, $15 to $16 billion has been loaned or guaranteed by the Bank. But then I understood from another statement, and incidentally, of that $15 to $16 billion, 60 percent had been repaid—I believe that was the statement.

Mr. LINDER. I said over 60 percent.

Mr. WILLIAMS. Then, from another statement I took it from the Bank's losses, they are less than 1 percent. Did I misunderstand these statements or can they be reconciled?

Mr. LINDER. The balance has not been defaulted upon. All it means is that 40 percent is still outstanding. Much of this has not yet been disbursed. They do reconcile completely.

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Mr. WILLIAMS. I understand that usually the term length of an Export-Import Bank loan is guaranteed for a maximum of 5 years—either the loan or the guarantee. I would like some clarification of the summary of operations from page 5 of your statement, particularly, I do not understand why loan disbursements have amounted to $9.2—Mr. Chairman, I believe I have 1 minute left—I do not understand why loan disbursements have amounted to $9.2 billion while loan repayments only amounted to $5.2 billion and cumulative to December 31, 1962.

The difference between those same figures is in the next column.

Mr. LINDER. I don't know whether I am taking your time, Mr. Williams, but in the first place, the volume of our business has been on an ascending scale. I am afraid this explanation will take longer.

Mr. WILLIAMS. Let us take cumulative to December 1962—December 31, 1962, loan disbursements, $9.2 billion, loan repayments, $5.2 billion.

Mr. LINDER. They are still outstanding.

Mr. WILLIAMS. You are saying it is outstanding and not due yet?

Mr. LINDER. That is correct.

I also want to correct your impression that our loans usually carry terms of 5 years. They are not usually 5-year loans.

Mr. WILLIAMS. What is your maximum?

Mr. LINDER. Our maximum loans can run out to 15 or 20 years. The weighted average of our loans now outstanding between disbursement and the time of repayment is about 10 years.

Mr. WILLIAMS. It might be helpful to this committee if we could have a record of all loans that have matured to date until the end of 1966 and what the experience has been with those.

Thank you.

The CHAIRMAN. Mr. Galifianakis.

Mr. GALIFIANAKIS. Thank you, Mr. Chairman.

My gratitude to you, Mr. Linder, and your staff for your very fine statement.

Most of the questions I had have been preempted by my preceding cross-examiners.

But I would like to clarify this.

In response to the chairman's question yesterday which in effect inquired into what percentage of the loans authorized since 1934 have been repaid, I think you said 60 percent.

Mr. LINDER. Actually it is over 60 percent.

Mr. GALIFIANAKIS. Can you give us some forecast of the likelihood of the full repayment of the remaining 40 percent?

Mr. LINDER. I would give you a very optimistic forecast as to the likelihood of repayment of the remaining 40 percent. Our loans are only made when we make a judgment that there is reasonable assurance of repayment. We have, of course, been wrong at times.

I indicated in my testimony yesterday that if I had to make a judgment based upon the losses sustained and transactions in default to the present time, that maybe $150 million would cover all of our potentially uncollectible items.

Now, if that be true, that is less than 1 percent, as of our lending over the years, and it represents very little more than the amount that we are able to add to our reserves in 2 years. That is, for the past several years we have added about $60 million annually to our

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reserve account over and above our dividend of $50 billion a year to the Treasury.

Our reserve account now stands at over a billion dollars, which is several times the amount that we would need were the Bank to be liquidated.

Mr. GALIFIANAKIS. I have another question.

Is there a transaction in which the Export-Import Bank engages which you can describe as typical or routine?

Mr. LINDER. Yes, there are transactions, daily, for medium term credit which I would describe as routine. They usually run for 2 to 4 or 5 years. They are payable in equal semiannual installments. They are taken by the commercial banks to the extent of 30 percent of the commercial risk and we guarantee the commercial bank against the balance of the commercial risk and all of the political risk in the transaction. Political risk guarantees cover transferability, war, riot, failure to grant an import license, confiscation of property, expropriation, anything of that sort.

These transactions also usually include a down payment of from 10 to 20 percent by the buyer and the exporter is usually required to carry 10 to 20 percent of the financed portion. Occasionally the exporter's share rises to 30 percent where the risk is greater.

Mr. GALIFIANAKIS. What is the average amount?

Mr. LINDER. It would be very hard to say, but I would say from $50,000 to $500,000. I have not tried to get a weighted average. Those are fairly routine transactions. Obviously they are very different kinds of transactions than the $110 million loan I just described a few minutes ago.

Mr. GALIFIANAKIS. One last question.

Some reference was made that you are expecting a list of tools in the Fiat transaction. Is it a proper inquiry of your Bank to determine whether or not those particular tools lend themselves to conversion for military purposes?

Mr. LINDER. Well, I think Mr. Rees made the point that we believed that these tools are designed for the manufacture of small cars. I have not seen this list.

Mr. GALIFIANAKIS. Is it a proper inquiry for the Bank to engage in that consideration, to make that determination?

Mr. LINDER. As you know, under the Export Control Act the Commerce Department grants export licenses when it feels that the material, machinery, or equipment, or the patents, processes, or plans being exported are appropriate for export. We would not finance anything for which an export license was not granted and presumably the Commerce Department would not grant an export license if they thought that the purpose of the export was to manufacture military equipment by an Eastern European country.

Mr. GALIFIANAKIS. Then that inquiry is simply incidental to your particular operation.

Mr. LINDER. That is correct, sir, because the Commerce Department has the responsibility to grant the export license.

Mr. GALIFIANAKIS. Thank you.

The CHAIRMAN. After Mr. Bevill and Mr. Kyros we will start around again and give each one an opportunity who has not had the privilege of interrogating the witness.

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Mr. Bevill.

Mr. BEVILL. Thank you, Mr. Chairman.

Mr. Linder, in looking over the summary of operations here, I would like to know if you could give us the amount of money that the Government has invested in this Bank since its inception, I believe in 1934?

Mr. LINDER. $1 billion and it has received dividends back on that investment of something over $500 million.

Mr. BEVILL. $506 million cumulative to December 31, 1966, in the form of dividends, is that correct?

Mr. LINDER. That is correct.

Mr. BEVILL. In other words, all the money that has been paid back is in the form of dividends?

Mr. LINDER. That is correct, sir, on the $1 billion of capital stock but we are not presently borrowing any money from the U.S. Treasury, but we have also paid interest in the past on money borrowed from the Treasury.

Mr. BEVILL. So that you have paid money back to the Treasury in two forms, dividends and interest?

Mr. LINDER. Yes.

Mr. BEVILL. What rate of interest do you pay?

Mr. LINDER. The rate of interest was determined by the Treasury and usually was based upon the cost to the Treasury of 7-year money at that time plus a little overage. So the rate varied.

We have paid the Treasury as little as about 3 percent at times and as much as 5-plus percent at times for funds which we borrowed. But at the present time we are not borrowing any money from the Treasury.

Mr. BEVILL. At the present time, then, am I correct in stating that this Bank is self-sustaining?

Mr. LINDER. I think you are correct in saying that.

Mr. BEVILL. The salaries of the officials and expenses?

Mr. LINDER. The salaries of the officials are all paid out of our earnings. This represents a very, very small part of our earnings. Our total administrative expense, Mr. Bevill, for salaries, rent, telephone, cables, travel, and so forth, is $4 million a year and our net earnings as I indicated, exceed $100 million a year.

Mr. BEVILL. That is all paid by the Bank?

Mr. LINDER. That is all paid by the Bank.

Mr. BEVILL. On this profit that you show here, I realize you pointed out very ably that you do set aside a reserve for these obligations that may not be paid, such as Cuba and mainland China?

Mr. LINDER. That is correct.

Mr. BEVILL. Those are marked off?

Mr. LINDER. No, we do not mark them off. We do not mark them off intentionally.

Mr. BEVILL. Then of course, if you did not collect the credits to Cuba and mainland China and those countries—

Mr. LINDER. Our reserves would decline by that amount.

Mr. BEVILL. Would that reduce your profits by that amount when you take them off the books?

Mr. LINDER. Well, our earnings are before that kind of writeoff. We do write certain things off. If a borrower, a foreign corporation goes into bankruptcy and we cannot collect, we write that off and we have about $1 million of that kind of writeoff each year.

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On major loans of this kind, it is a matter of policy not to write them off because we don't wish to give up our claim and announce that we don't feel that the Cubans owe us that money or that mainland China does not owe us a certain amount of money.

So we keep that on our books.

I am not giving up today and assuming that no other government is ever going to come in Cuba and that that government is necessarily going to have the same attitude that Mr. Castro has about his debts to us. And therefore I don't write it off. But half of our earnings, at least, go into this reserve fund which is now greater than a billion dollars and that is adequate to take care, we believe, of any losses that eventually might be sustained.

Mr. BEVILL. Actually, the Bank has been a very profitable agency of the Government with a billion-dollar investment, has it not?

Mr. LINDER. I think it has.

Mr. BEVILL. In the event these are not paid, those that are questionable, you would still be a very profitable institution.

Mr. LINDER. I don't think that will have very much bearing on the general profitability.

Mr. BEVILL. My time has expired. Thank you.

Mr. LINDER. Thank you, sir.

The CHAIRMAN. I think Mr. Wylie is entitled to recognition.

Mr. WYLIE. I have no questions at this time.

The CHAIRMAN. Mr. Kyros, then, and after that we will start around again and those who did not have the privilege of questioning the witness will be allowed to do so.

Mr. KYROS. Thank you, Mr. Chairman.

I want to commend you, Mr. Linder, on the very clear statement you made about the Bank and I appreciate the fact that you took into consideration some of us who did not know very much about it. It aroused my curiosity so I want to ask you a parochial question if I may.

In Maine we have deep, cool, clear, water and we have shrimp and we are beginning to fish it out. Some of our people export it to the United Kingdom and the trouble they have, they do not get paid for 90 to 120 days, and it is a new industry and they cannot finance those receivables. Is there some way your bank can help out?

Mr. LINDER. Easily, if they are going to sell to good buyers, I would be delighted to hear from them. If they can go to their own commercial banks we will arrange for some sort of transaction whereby we in turn would guarantee the commercial bank. Generally, however, on these short-term 90-day transactions, insurance is the way to do it. If they are selling to the United Kingdom, this ought to be very simple.

Mr. KYROS. Thank you, sir.

The CHAIRMAN. Mr. Brock.

Mr. BROCK. Mr. Linder, I want to join those who congratulated you on a clear and concise statement.

Mr. LINDER. Thank you, sir.

Mr. BROCK. The Bank appears to be an excellent operation.

There are a couple of questions that I have relating to the activities of the Eximbank.

Am I correct in assuming—I believe I am—that you do not go into an area unless commercial credit is unavailable?

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Mr. LINDER. We try not to. I cannot guarantee it in every case, but we make an active effort and I think generally this is true.

Mr. BROCK. In your statement you mention that it is difficult to estimate how long the additional authority now requested will suffice and that this will depend on a number of imponderables, one the rate of increase in international trade and our share of it and another is the volume which can be financed privately as against the amount which will require governmental assistance.

Mr. LINDER. That is correct.

Mr. BROCK. In the past couple of years when our balance of payments problem got to the more critical stage, the Federal Reserve and the Treasury of the U.S. Government have imposed voluntary limits on commercial bank activity in the field of loans outside of the scope of the U.S. territory. Do you have any estimate from the Treasury, or are you that much in contact, to know just how much these commercial loans were curtailed in 1966?

Mr. LINDER. I don't think they were curtailed in this respect. I believe that for most of that time the bank's operations were substantially below the ceilings put on by the Federal Reserve. Moreover, the banks always had available to them the possibility of doing credits with Eximbank assistance or participation, and these are exempt from the ceilings.

Mr. BROCK. I am aware of that. What I am talking about is the efforts that were voluntary did result in a lower amount of U.S. capital from private firms; is that correct?

Mr. LINDER. I think this is correct, but that did not necessarily affect export credits.

Mr. BROCK. The investments were covered——

Mr. LINDER. Under the guidelines of the Department of Commerce.

Mr. BROCK. Covered by the interest equalization tax. But your primary commercial activity is in the field of less-than-1-year loans and these are a direct benefit to the U.S. exports, but we did ditch these loans in great amounts in the commercial field.

Mr. LINDER. My own feeling is, Mr. Brock, that our exports were not hurt through any lack of financing caused by those restrictions. I couldn't give you testimony with any degree of certainty that this is true because it may be that certain banks preferred to do business in the domestic field partly because of them.

Mr. BROCK. Maybe we should have the Secretary of the Treasury.

How much did your volume run last year?

Mr. LINDER. How much did it grow?

Mr. BROCK. What was your total loan volume last year in new loan?

Mr. LINDER. Our total authorizations in fiscal 1966, were $2,142 million. That included loans, guarantees, and insurance. In the preceding fiscal year they were $1,859 million, and in fiscal year ending June 30, 1967, we anticipate it will be about $3.5 billion in terms of total guarantees, insurance, and loans.

Mr. BROCK. This is total outstanding?

Mr. LINDER. No, this is the total amount which we will have authorized in that year.

Mr. BROCK. What I am getting at is, I am concerned by limiting the activities of the commercial institutions, and expanding the authority of the Eximbank we simply may be replacing one kind of credit for

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another in order to keep our exports up and to kid ourselves about the balance-of-payments problem without going to the basic problem ourselves.

Mr. LINDER. I think I can answer that, Mr. Brock, and say this is something you need not worry about.

In the first place, we make an active effort, and I think the banks of the country on the whole will agree, to avoid competing with private capital. As a matter of fact, the chairman has a letter from the Bankers' Association for Foreign Trade that would seem to indicate that they do not believe our activities impinge upon their commercial banking activities.

Secondly, I would say that we do not, in general, make loans which are normal to commerical banking.

Mr. BROCK. I am aware of that. But if you have restricted the commercial activities you make these loans not available to the commercial banks.

Mr. LINDER. No, sir. Because every export loan that is made today is either made entirely without our intervention by a commercial bank, or in combination with us, or entirely by us. If it is in the second category, it is not included in the guideline figures, but this is incidental, because the banks have been well below the limit on their guidelines. We do not compete with the banks on any short-term business. We do not compete with the banks on any medium-term business. Finally, commercial banks do not normally lend for periods which extend for more than 5 years.

Mr. BROCK. I am aware of that.

Mr. LINDER. We do none of that business whatever. If you looked at our annual report 3 years ago you would have seen that a very substantial amount of exporter credit was granted, whereas you will find exporter credits during last fiscal year were only $6.6 million and in 1965 they were zero. We have a gentleman's understanding that we do not intend to go into the business of granting exporter credits. No formal agreement was made because it would be unwise for us to commit ourselves that we would never do an export credit. When an exporter comes in to us we say, "We have insurance for you, which you can use as collateral on a loan, or you can go to your bank directly on a medium-term transaction, get the credit from them, and they will come to us if they feel the need to have us guarantee the loan."

Now, what we are asking for is an increase in our authority to do those things, to give the commercial bank the kind of guarantee that they want or make loans of a kind which a commercial bank does not make and credits which are not available in the private area.

Mr. BROCK. Thank you, my time is expired.

The CHAIRMAN. Mr. Reuss.

Mr. REUSS. I, too, want to congratulate you on the very able administration of the Export-Import Bank which you have given for so many years.

On the Fiat proposal which has been discussed here, in your opinion does the restrictive language of the Foreign Aid and Related Agencies Appropriations Act apply to that? That language, as you recall, says that under certain circumstances no guarantee or credit, except when the President determines that such guarantees will be in our best interests shall be given. Does that apply to this?

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Mr. LINDER. Technically it does not, because the loan is made to an Italian borrower and not to an Eastern European borrower. As I indicated earlier, in the Fiat case the President himself announced that Eximbank was prepared to make this loan. Therefore it is clear that he personally made the decision and obviously concluded that it is in the national interest for us to do this.

Mr. REUSS. Has he so formally reported?

Mr. LINDER. He stated in his speech before the Editorial Writers' Association, that the Export-Import Bank, with his approval, intends to assist in this transaction.

Mr. REUSS. I am well aware of that. Let me just convey to you the thought that it might be tidy if the President sent up a piece of paper pursuant to the Foreign Aid Act in which he states this is in the national interest, and reports it in 30 days after he made the determination, because as I read that language, I would not be surprised if he did not have to report.

So rather than expose ourselves unnecessarily, I would hope that he could send up a little piece of paper saying this.

Mr. LINDER. I obviously cannot speak for the President. I will be glad to transmit the message to his staff. I think technically, if I may disagree, he was not required to do it. But this is something that lawyers will argue about.

Mr. REUSS. Calling the attention of those lawyers to the language, and I quote, "or in any other way to participate in the extension of credit to any such country, agency, or national, in connection with the purchase of any product by such country, or national"—if I were the person required to send up the statement I would send up the statement.

Mr. LINDER. I understand.

Mr. REUSS. One other question on this, and I think you very ably presented the case for the Fiat deal, and I agree with you. Essentially it seems to involve a weighing of costs and benefits. On costs, you say the Soviet Union still does say that communism is going to try to conquer the world. They are also supplying the majority of the military material of North Vietnam.

On the other hand, you say that this Fiat arrangement will help to build bridges to the Soviet Union and Eastern Europe, and that the automobiles made pursuant to it will presumably give a somewhat higher standard of living to the Russian people and make them a little less eager to give up that in favor of world war III; and, finally, if we do not sell to them, somebody else will.

Is that a fair statement of the cost-benefit ratio?

Mr. LINDER. I think this is true. I am not sure that it is agreed that the Soviet Union is the major supplier. I still have an idea that Communist China is the major supplier, although there is no question that the Soviet Union has supplied a great deal of war material to the North Vietnamese.

Mr. REUSS. Is not the Soviet Union the greatest supplier of war materials to North Vietnam?

Mr. LINDER. Of the more sophisticated defensive items, I am sure it is.

Mr. REUSS. It is the North Vietnamese with whom we are fighting and with whom we say the principal negotiation for peace must come, is that not so?

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Mr. LINDER. I am not an expert on it, Mr. Reuss. However, I remember a comment that Ambassador Kohler made some time ago. He indicated, if I recall correctly, that most of the material supplied to the North Vietnamese came from China while the specialized material came from the Soviet Union.

Mr. REUSS. What is the difference between the Soviet Union and Communist China? Why is it that we are willing not only to trade with the Soviet Union, but to facilitate foreign trade by loans? The Soviet Union gives as much aid or more, than Communist China does. The Soviet Union, like Communist China, has unretracted statements of world conquest on its spindle. The building of bridges, the better standard of living, the "if we do not, somebody else will"—that argument seems to apply to them as well. What is the difference?

Mr. LINDER. Well, as I indicated yesterday, Mr. Reuss, I am prepared in effect to substitute the judgment of the Joints Chiefs of Staff, of the President of the United States, and of the Secretary of State for my own, even though my own instinct tells me that it is appropriate for us to continue to try to increase our trade with Eastern Europe.

Again, without in any sense suggesting that I have any expertise in the matter, my instinct tells me that it is not a particularly good idea for us at this stage of the game to try to build bridges with the Chinese. I don't know that they are buildable. But again, as an official, I am substituting the judgment of those principally responsible for my own. My interpretation of the Bank's job, and my job, is to carry out the diplomatic policy of the United States in this respect unless I felt that I was doing something I couldn't reconcile with my own conscience.

Mr. REUSS. I appreciate that. I did not want to get you beyond your essentially banking jurisdiction.

Would you, however, invite the Secretary of State and the Joint Chiefs of Staff and anybody else in the administration at this point in the record to supplement your answer in any way they care to? Because this committee, of course, is concerned with the overall question. I would just like to know what is the difference.

What are we relying on? Is it because the Communist Chinese are alleged to give more aid to North Vietnam than the Russians do?

Mr. WIDNALL. Will the gentleman yield?

Mr. REUSS. Surely.

Mr. WIDNALL. I believe that the chairman and I in discussing this have agreed that we should have something from the Secretary of State and he will be a witness before the committee, and some others, too, from CIA, Commerce and the Defense Department.

The CHAIRMAN. We will have them when we can. It looks like we will have to adjourn subject to the call of the Chair today when we get through at 12 o'clock and take this matter up again when we can. Commencing next Tuesday the Housing Subcommittee will, of course, have the committee room for about 10 days—maybe longer, maybe less. We will only take this up after that time. Then, immediately after the Export-Import Bank we will take up the silver bill. Let us find out how many here have not had the privilege of interrogating the witness and would like to interrogate him.

Mr. Clawson is next.

Mr. CLAWSON. Thank you very much, Mr. Chairman.

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Your appearance, Mr. Linder, has certainly helped many of us to better understand the fine operation of the Eximbank and to know more about the functions and purposes of the organization. I hope my questions will add to this understanding.

The first that I have is in connection with the participations. I believe your testimony indicated that you do not plan to borrow from the Treasury and that you currently have no obligation to the Treasury because you have not borrowed from them.

Mr. LINDER. I said we currently have no Treasury borrowings.

Mr. CLAWSON. I understood that you were not going to borrow.

Mr. LINDER. I cannot look too far ahead, but I have no plans to borrow from the Treasury at present, but I cannot, in any sense, give a commitment of what the Bank Directors might decide to do next year.

Mr. CLAWSON. May I inquire how many participations you probably will be selling and what the estimated total volume will be if you meet 100 percent of your potential commitments of participations? Would that be in the area, considering the capitalization and surplus of perhaps $10, $12 billion?

Mr. LINDER. It would never reach such a high figure. I think I could make a reasonable estimate in the next fiscal year.

Mr. CLAWSON. I mean the cumulative total at any one time.

Mr. LINDER. Let me say this. We have sold approximately $3 billion of participation certificates. We have retired approximately a billion dollars and there are approximately $2 billion presently outstanding. I would not like to guess as to what we would have outstanding much beyond, say, a year from next June because my crystal ball is not any better than that and I am not sure how good it is for that period. But in any event we do work with figures, a year, a year and a half, 2 years in advance.

If the business that we now anticipate eventuates during the balance of this and next fiscal year, I would think that at the end of fiscal year 1968 we might have something between $2½ and $3 billion of outstanding partcipiation certificates. This would depend on a variety of factors, as whether our prepayments and disbursements are greater or smaller than we now anticipate. I cannot make it any more precise than that.

Normally, the Bank finances itself with capital of $1 billion, reserves of $1 billion, and it always has a float of undisbursed commitments. If you will look at our balance sheet over a period of 10 years, you will see that the amount of our undisbursed commitments is roughly a third of the amount of our disbursed commitments—a relationship which is likely to hold in the future. In addition, we have large amounts of guarantees and insurance which require no money unless there is a failure. That is to say, it is not the amount of insurance that we have outstanding which concerns us in financing the Bank; it is rather the amount of claims which we have to pay on that insurance. Nevertheless, from the point of view of the lending authority, we need authority from the committee to write the insurance not to pay the claim.

Therefore, I would guess that the chance of our having $10 billion or $12 billion of participation certificates outstanding at any one time is absolutely nil.

Mr. CLAWSON. With this response, then, and the figures you have given to us, why do you need to go to $13.5 billion?

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Mr. LINDER. Because I expect that we will not be able to do the business that I anticipate for the fiscal year ending June 30, 1968, unless we get an increase in our lending authority. As of June 30 of this year, we would be down to something like $1.2 billion of unused lending authority. This should not be confused, if I may use the word without in any sense derogating your question, with our requirements for financing the Bank.

During the fiscal year beginning July 1, 1967, and ending June 30, 1968, I anticipate that we will be doing business at a level comparable to that which we are doing this year. This means, from an accumulated lending authority standpoint, a net requirement of something in the neighborhood of maybe $2 billion by the end of fiscal year 1968 and we will have started that fiscal year with only $1.2 billion uncommitted.

Now this does not mean that we are short of money; it does not mean that there is any problem in financing this operation. But it does mean that there is a problem with respect to having the authority to commit, through loans, guarantees, and insurance, the amounts needed to continue our business at the present and anticipated rate.

Mr. CLAWSON. I think that is responsive. In relation to this, would you also—and I think this has bearing on the question in connection with the use of participations—comment on the GAO audit. I understand that, under the existing law, participation certificates are not included as part of the public debt. I have difficulty reconciling this with the ruling of the Attorney General, but nevertheless this is the way it has been interpreted.

The subject audit revealed the interest rate would have been less if Treasury had issued the securities and the minimum additional cost will total about $4.3 million. Would you comment on that? Not right now, but for the record, and also on the recommendations of GAO on page 15 in connection with the classification of income expense, and on page 17 the discontinued policy and practice of Government investment.

The CHAIRMAN. You may answer those for the record.

(The information requested follows:)

On page 4 of its Report to the Congress of the United States on the Audit of the Export-Import Bank of Washington for Fiscal Year 1966, the General Accounting Office states that "In fiscal year 1966 the Eximbank sold $760.5 million worth of guaranteed participation certificates to commercial banks. * * * The interest rate on this debt would have been less if Treasury had issued the securities direct, and the minimum additional cost to the Government will total about $4.3 million." The Bank does not disagree with this conclusion. However, we believe that there are countervailing advantages to the Bank and the Government as a whole in raising funds through the sale of participation certificates rather than Treasury obligations. These advantages were thoroughly explored by the Banking and Currency Committee during its consideration of the Participation Sales Act of 1966.

On page 15 of the General Accounting Office report to the Congress on the Eximbank audit for fiscal year 1966, the following suggestion was made for future Eximbank accounting:

> * * * we believe that it is essential that Eximbank classify income and expenses pertaining to insurance operations in a manner that will provide for the reporting of insurance operation results by insurance coverage.
>
> Eximbank advised us that any decision relating to accounting for these matters would be reserved until the Eximbank has had an opportunity to review the results of a management survey then in process.

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On the basis of the preliminary results of the management survey, the bank is inclined to the view that it should adopt the suggestion made by the General Accounting Office.

The following statement appears on page 17 of the General Accounting Office report:

> The Eximbank has discontined the practice of disclosing, in a separate section of its statement of assets and liabilities, the several items making up the investment of the U.S. Government in the bank. These items are now presented as liabilities, capital, and reserves.

In response to this comment, we have stated to the GAO that our relations with commercial institutions, and the use of our financial statements in the prospectuses issued in offering our participation certificates, make it desirable that we follow commercial practice as nearly as possible. We believe that placement of these items as they now appear in our annual report does not in any manner distort the results or constitute nondisclosure.

The CHAIRMAN. All right, Mr. Hanna is next.

Mr. HANNA. Thank you, Mr. Chairman.

Mr. Linder, this is the first opportunity to personally thank you for a decision you made to have the insurance office on the west coast. I can assure you that I not only appreciate it but many of the people involved in world trade on the west coast appreciate it.

It has concerned me that for some reason or other this particular bill has been picked out to be involved in a question of foreign policy. In fact, it has gone so far as to have a charge leveled at it that one of the aims and purposes is to finance expansion of trade with the Soviet bloc.

Now, I am sure that your answer is very clear, Mr. Linder, that this bill has nothing to do with the U.S. policy on expansion of trade with the Soviet bloc.

In fact, whether we pass this bill or not, is it not fair to say that the U.S. foreign policy is not going to change, and it is also equally true that the foreign policy of the countries in the Soviet bloc is not going to change whether we pass this bill or not? Whether we pass this bill or not is not going to affect any trade between the Soviet Union and Hanoi and it is not going to have anything to do with whether they build automobiles ultimately in the Soviet Union.

The question is, is American business going to be involved in any of that? And will have the assistance of your Bank: is that not your question?

Mr. LINDER. I think this is true.

Mr. HANNA. Another thing that I think is very interesting, the connection between your Bank and the commercial banks in trade. I thought, and I would be surprised if I am wrong, that the activities of your Bank have invited in more participation of commercial banks in trade transactions than was ever true in the past in the United States. Am I wrong about that?

Mr. LINDER. I think you are right, although I couldn't possibly adduce statistical evidence to prove it.

Mr. HANNA. Is it not true that the insurance that you offer covers situations in which you do not actually make the loans to the commercial banks?

Mr. LINDER. This is true. All of our insurance is merely a guarantee by us, and the buyer of that insurance either uses that as collateral to rrow with or if he is rich enough to hold the paper himself, he will

r. HAN A. Is it not true that you make loans and only take part of t hat commercial banks participate in that risk?

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Mr. LINDER. That is correct, sir.

Mr. HANNA. Until you got in the act we did not have so many to participate with.

Mr. LINDER. That is correct.

Mr. HANNA. I was quite surprised to think that anybody did not believe that this should be encouraging the participation of commercial banks.

Mr. LINDER. I think it does.

Mr. HANNA. The other thing—I felt the main purpose of this bill was to keep the activities of our Government in encouraging exports on a competing level with the expansion of world trade as a whole; is that not right?

Mr. LINDER. I think this is true, sir. I don't think the $4.5 billion, if the level of our business continues where it is today, is going to be sufficient to take care of the expected need for export financing for 5 years. I think it is too conservative a figure.

Mr. HANNA. In my district, Mr. Linder, I have Douglas Aircraft, I have Hughes Aircraft, I have a number of other people who are very heavily involved in sales with countries like Japan throughout the Pacific chain and they tell me that their problem, No. 1 problem today is that there are European countries who are now reaching a quality output of products that are very competitive and in the next stage of competition that it is financed, and that whereas other countries are underwriting exports and not providing money directly from their government in some of these activities, the Export-Import Bank is the only major effort made by the United States to assist financing of exports.

Mr. LINDER. I think this is true, sir. In the recent past when the airplane industry has not found it possible to get commercial banks to give export credits on the terms which they require, usually 7 or more years, Eximbank has been the only place to which Douglas and Boeing could turn. Where possible we try to do the financing through the commercial banks, but during the past year that has been wholly impossible.

As I indicated in my statement, we will have done close to a billion dollars of airplane financing in the course of the current fiscal year.

Mr. HANNA. The final point, Mr. Linder, is that I think you very admirably put the Bank's position, and everybody has commended you highly for it—for what the Bank has been doing.

So the final point, it seems to me, although you and I can understand why you end up being the whipping boy, because somebody does not like the President's policy about East-West trade, what can we do about it in this bill? What would it do to the bill? Is it to be anticipated that there can be an amendment on this bill saying that the banks shall not participate in any East-West trade financing? If we make such a decision, assuming it is appropriate for the Banking and Currency Committee to make such a decision, what kind of position does that put you in in terms of your trying to operate with the rest of the laws that Congress has passed directly related to our trade policies?

Mr. LINDER. I think it would be unfortunate. I must say that I regard myself, in my capacity as the President of the Bank, to be very fortunate in having a simple piece of legislation under which to operate with a clear mandate as to what we are in business for, and a relatively understanding attitude on the part of the Congress. I think

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it would be very unfortunate for specific matters to be introduced into our legislation which we do not think are as relevant to our activity by any means as they are to other activities of the Government. I would open the way for any conceivable number of amendments, all of which would make operation of the Bank very, very much more difficult. If the Congress has confidence in the way the Bank has been operated, and that its directors have been prudent in their use of lending and borrowing authority, then I would hope that the Congress would express that confidence by permitting us to go ahead.

As I said in my statement, we will not make loans or guarantees or issue insurance merely because we have funds that are available. It seems to me we have proved that. My predecessors acted that way and I hope it is not immodest to say that in the past 6½ years that I have been head of the Bank, the Bank has so conducted itself. Therefore, I would deplore very much the introduction of this kind of restriction into the Export-Import Bank Act.

Mr. HANNA. Thank you, Mr. Linder. I will submit some questions that I would like answered for the record.

(The questions and answers follows:)

Mr. HANNA. As Western Europe, Japan, and the U.S.S.R. improve the competitive quality of their industrial products, does this not place additional importance upon the competitive financing available to U.S. exporters?

Mr. LINDER. Very definitely so. Foreign buyers who can now purchase comparable equipment from several different sources are in a better position than ever in requesting liberal financing terms in connection with their purchases. In fact, we have become increasingly aware of transactions in which foreign buyers have expressed a preference for U.S. goods, but nevertheless were considering purchasing from Europe or Japan simply because they thought that more favorable financing terms might be obtained. If Eximbank is to continue to be in a position to respond by matching the foreign terms, thus retaining the sale for the U.S. firms, an extension of its life and an increase in its lending authority as envisaged in the proposed bill will be necessary.

Mr. HANNA. What is the growth ratio between the Bank's activities and the growth in the world trade for the past 5 years?

Mr. LINDER. During the 5-year period from fiscal year 1961 through fiscal 1966 the rates of growth of world trade and of the Export-Import Bank's authorizations have been approximately equal. During that period world exports, according to International Monetary Fund data, grew at an average rate of 8.6 percent per annum while Eximbank authorizations grew at an average rate of 8.7 percent per annum.

Mr. HANNA. It is obvious to this committee with compelling force as it is increasingly clear to all Members of Congress that our balance of payments bears heavily upon our domestic economy, as well as affecting our international position.

In your judgment, is it wiser to use institutions and instruments that increase our favorable balance of trade than to depend upon regressive measures such as discouraging investment abroad or travel by our citizens?

Mr. LINDER. Ideally, it is preferable to rely on institutions and instruments that increase our favorable balance of trade rather than on regressive measures. Measures designed to increase our balance of trade in general serve to increase the freedom and amount of the exchange of goods and services between nations. Such policies tend to maximize employment and income in all countries.

Regressive measures may benefit the balance of trade in the short run, but tend to do so by causing distortions in the trade and investment patterns of the world with the possibility of long-run damage to the world economy. However, severe balance-of-payments difficulties such as the U.S. has experienced may require a combination of policies, including some less desirable ones such as the voluntary restraint programs, since the positive measures do not always give the quick results that are necessary to eliminate the deficits.

Mr. HANNA. Will the legislation before us improve the competitive stance of U.S. exporters financially?

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Mr. LINDER. Yes. Unless the Bank is given extended life and additional lending authority there is bound to be a serious reduction in the competitive stance of U.S. exporters. They could no longer be able to assume that credit assistance would be available in sufficient amounts to assist their sales efforts. Prospective purchasers would no doubt also shift their attention to other sources of supply, knowing that other countries are increasing the volume and scope of credit assistance to their exporters and thereby making it more likely that favorable credit terms could be obtained outside the United States.

Mr. HANNA. Will the legislation before us encourage expansion of U.S. trade?

Mr. LINDER. The entire purpose of the proposed legislation is to encourage the expansion of U.S. trade. U.S. exporters face severe competition in terms of price, quality, and financing. In most cases the provision of financing by the seller is an essential aspect of the export sale. In fact, even where the U.S. product is superior in terms of quality and price, the sale will often be lost if competitive financing is not provided. Thus, were U.S. exporters to be deprived of the assistance which the proposed legislation would enable the Bank to continue to offer, the U.S. position in world markets would suffer a severe setback.

Our analysis of the period covered by the proposed extension of the life of the Bank, through fiscal 1973, indicates that in many products, especially those such as aircraft and nuclear reactors with a high component of advanced technology, the United States can expect to maintain or expand its markets, but only if competitive export financing is available.

Mr. HANNA. Will the legislation before us move the Bank in ratio to its volume of business in step with the increasing volume of world trade and the U.S. position of such trade?

Mr. LINDER. There is every expectation that the Bank's business will increase as U.S. exports and world trade increase, even though it cannot be stated with assurance that an exact proportionate relation will exist. For several reasons, the rate of growth of the Bank's business is not always directly correlated with increases in either world trade or the U.S. portion of such trade. Due to the nature of the commodities exported by the United States, as well as the relationships of parent companies and their subsidiaries abroad, a large part of the total commercial exports of the United States is sold on a cash basis or on such short terms that self-financing by the exporter is feasible. Only a portion of our exports are customarily sold on credit terms and are therefore appropriate for assistance under Eximbank loans, guarantees or insurance. Moreover, the relationship between demands for Eximbank financing and the growth of U.S. exports financed on credit is complex. For example, in the past few years the rate of Eximbank authorizations increased faster than the growth in U.S. exports because tight money marked conditions severely curtailed the availability of normal private sources of financing for export transactions.

Mr. HANNA. Mr. Linder, if the State Department and others involved in foreign relation legislation are required to testify on this legislation, how is it your advance and testimony has not been sought by the Foreign Relations Committee relative to these policies Congress has adopted which may incidentally affect your operations as a Bank?

Mr. LINDER. The primary responsibility for the administration of the broad foreign trade policies of the United States lies with the Departments of State, Treasury, and Commerce. The Bank's operations are conducted under foreign policies established by the executive branch of the Government within the framework of congressional enactments. The Bank's financial assistance is available to support export transactions which are entered into in compliance with general export law and policy. It is therefore appropriate for the State Department and other major agencies concerned with foreign trade policy to testify on this legislation. By the same token, it is inappropriate for the Bank to testify on broad foreign policies before the Foreign Relations Committee because the Bank's function is limited by the Congress to facilitating trade through the extension of credit and other financial assistance.

The CHAIRMAN. Mr. Johnson.

Mr. JOHNSON. Mr. Linder, I too, want to compliment you on the operation of your Bank. I think you have been a great aid to the export trade of the United States. By the way, you have an excel Board of Directors. I see you have a lady on the Board, a m West Virginia, and Mr. Lilley. You have surrounded you good people.

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I want to ask you just two questions.

First of all, on page 6 you say you have $2 billion worth of loans committed but not yet disbursed.

Mr. LINDER. Yes.

Mr. JOHNSON. Would that be classified information so you could give the committee the commitments made so we would be better able to understand who you are dealing with?

Mr. LINDER. I am sure we can.

Our annual report gives you the greatest detail of every loan on our books and the answer to that question is contained in that report, but I would be glad to list the loans as you request, if that will help.

Mr. JOHNSON. Second question: While you have committed $2 billion, what as of, let us say today, is your balance, how much money have you got in the Bank right now?

Mr. LINDER. I think at this particular moment we have about $130 million in the Bank, on deposit with the Treasury.

Mr. JOHNSON. And you are broke, are you not?

Mr. LINDER. No; we are not. I assured the leadership of this House, sir, 4 years ago that the Bank could be financed without turning to the Treasury of the United States and when Mr. McCormack asked me for how long, I said quite a long time. He asked, "You will not be back in 6 months?" I said, "No." Mr. Patman was there. He asked, "You will not be back in a year?" I said, "No." He said, "Two years?" I said, "No." He said "That's enough." Under those circumstances I think I could give you the same answer today. I have not any doubt at all that the Bank can be financed. As a matter of fact, I think that it is probably unfortunate that I have so large a cash balance today and not a smaller one.

Mr. JOHNSON. I notice you say you are not going to resort to Treasury borrowing, nor were you going to ask for an appropriation. But apparently for you to respond to the $2 billion you have committed, you of necessity will have to sell PC's?

Mr. LINDER. I will, I will have to borrow, sell PC's, or do both of these things. Essentially the selling of PC's is no different than going to, for example, the First National City Bank as we have been doing for years and years on specific transactions and saying, "We have made this loan to Japan Airlines, we will guarantee it for you, do you want to pick it up?"

Mr. JOHNSON. Can I ask one more question? Yesterday Mr. Halpern brought out the fact that Nasser, the United Arab Republic is in default. Let us say if the United States determined that they were going to sell Nasser a million bushels of wheat, would you, in view of his defalt, finance him for the purchase of this wheat?

Mr. LINDER. I think it highly unlikely while he was in default, but I don't want to commit my Board of Directors before the fact. It is an iffy question. The fact is we have not made a loan to the United Arab Republic since 1963.

Mr. JOHNSON. It seems to me Congress did, in one of the last bills, put a clause in there we could not extend any aid to the United Arab Republic in view of their default.

Mr. LINDER. I do not regard our activities as aid. I would like to make that clear. What we do are the kinds of things that are done in normal commercial transactions and the credits that we give are the kind that are available in competing countries of the world in one form

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or another with their respective governments' guarantee or assistance. But is is not aid when we extend a credit with a terminal date of 7 years payable in equal semiannual installments for the Japanese to buy Boeing planes. I should have said Douglas because Japan usually uses Douglas. I am sorry my friend, Mr. Hanna, from California, was not here for him to hear me say that.

Mr. JOHNSON. Do you agree with the Attorney General, when you sell participation certificates, that they become a direct obligation of the United States?

Mr. LINDER. Well, I should say, sir, whether I agree is wholly irrelevant. He is the fellow who decides. I would say that I think we have proved that the Bank is a viable institution by selling at least $2.5 billion worth of participation certificates before the Attorney General rendered such an opinion, and, therefore, I think we could sell and finance the Bank without benefit of the Attorney General's opinion concerning the obligations of the United States. I think our record is good enough to do that. I think our assets are good enough so that we could borrow that amount of money. Now, clearly, he is the fellow who determines whether or not it is an obligation of the United States, not us.

Mr. JOHNSON. Thank you.

The CHAIRMAN. Mr. Gettys.

Mr. GETTYS. Thank you, Mr. Chairman.

Mr. Linder, the loans that are made by the Bank are designed to stimulate the export of American goods, is that correct?

Mr. LINDER. Generally speaking, this is certainly true.

Mr. GETTYS. Do you deal in financing of exports of soft goods as well as hard goods?

Mr. LINDER. Yes, we do.

Mr. GETTYS. We have in the Southland a great textile import problem. Does the Bank in any way, directly or indirectly, finance imports?

Mr. LINDER. No, we do not.

Mr. GETTYS. Of textile goods into the United States?

Mr. LINDER. We do not. Legally we could, but there has been only one import transaction in 6½ years that I know about and that has nothing to do with textiles.

Mr. GETTYS. The Bank, as I understand your testimony, does not participate in the formulation of foreign trade policy, but implements it?

Mr. LINDER. Generally speaking that is true. I do not mean to say that I am——

Mr. GETTYS. You may have some opinions.

Mr. LINDER. I would not say that the State Department would not ask once in a while what we thought about this, that or the other thing, but we do not have the responsibility for the formulation of U.S. trade policy.

Mr. GETTYS. Now, the Kennedy round and the other negotiations that are going on now, is the Bank in any way participating in those?

Mr. LINDER. No, it is not.

Mr. GETTYS. But so far as your Bank activities are concerned, it would not affect the textile industry with regard to imports from other countries?

Mr. LINDER. No, I can say categorically it would not.

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Mr. GETTYS. Thank you, sir. Now, your Bank is one of the very few agencies of the U.S. Government that is dealing with foreigners which has shown a profit. I want to congratulate you.

Mr. LINDER. Thank you.

The CHAIRMAN. The Chairman is obligated to call on Mr. Fino to ask additional questions he did not finish the other day and after he finishes I hope we can excuse Mr. Linder for the present, unless we have a need for him to come back. And of course, any member who desires to submit questions in writing to Mr. Linder may do so and he will answer them when he examines the transcript.

Mr. Fino.

Mr. FINO. Thank you, Mr. Chairman.

Mr. Linder, this morning you have again pointed out the great U.S. advantages of making loans to foreign countries. This is commendable, it is fine. I agree with you. That is, if we are dealing with countries that are not at war with the United States. But certainly helping out a country directly or indirectly which is at war, indirectly or directly with the United States—in my opinion is not only unconscionable, but stupid. I just want to remind you, and you probably know it as well as I do, the very startling statement made by Mr. Khrushchev, when he said, "We will bury you."

I say to you, Mr. Linder, that if we proceed to do what President Johnson has in mind in building these bridges between East and West that we will be giving the shovels to the Soviet Union to dig these graves that we are supposed to be buried in.

This morning, I am sure you are aware, two letters were handed to the chairman, one from the Secretary of Commerce and the other letter from the Department of State. The letter from the Department of State is signed by Mr. Katzenbach. I want to say, and I expect to see Mr. Katzenbach before this committee—I want to say that either Mr. Katzenbach does not know what it is all about or what is going on in the Department of State, or he is trying to pull the wool over the eyes of this committee. I particularly point out in his letter where he says in the third paragraph, "The Sino-Soviet split and the continuing trend among the Eastern European countries toward greater national independence are major developments affecting not only our own security but world peace and stability."

In this morning's New York Times, right on the front page the caption, "A Soviet-Chinese Accord on Aid to Hanoi Reported."

I just want to read the first paragraph of that article:

> U.S. officials said today that the Soviet Union and Communist China had apparently worked out an understanding to speed the flow of Soviet military supplies to North Vietnam across China.

In his letter, Katzenbach says President Johnson has made it clear that in the world of nuclear weapons, the United States has an obligation to mankind to seek areas of peaceful cooperation with the Soviet Union and other countries of Eastern Europe, even while we are resisting Communist aggression in Southeast Asia and elsewhere.

How can we, Mr. Linder, how can we have peaceful cooperation and do business with the Soviet Union when you know and I know and the whole world knows that Russia is supplying aid to North Vietnam?

Mr. MULTER. Is that your question?

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Mr. FINO. I am just making an observation.

Mr. MULTER. I thought you wanted to ask Mr. Linder a question.

Mr. FINO. Not yet. In answer to Mr. Hanna, of California, who said that the purpose of this bill is merely to extend it for another 5 years, and so forth and so on, let me say this, that if that was the purpose and there was no other purpose behind this bill, Mr. Katzenbach would not spend 2½ pages in trying to not deny what we are trying to do here, but trying to justify this East-West trade.

In the letter from the Secretary of Commerce, he says—

> The product of this plant—light automobiles—is a peaceful item which will in the years to come provide better transportation and increase the standard of living for the people of the U.S.S.R., even though the first customers may be their Government officials.

I want to point out to you, Mr. Linder, that in the Wall Street Journal of February 10, there was a statement to the effect and I am quoting the Wall Street Journal, "The new Fiat plant will build cars primarily for export and only secondarily for the Russian market."

Do you have any comment on that Wall Street Journal article?

Mr. MULTER. Mr. Chairman.

Mr. FINO. I am asking Mr. Linder.

Mr. MULTER. And I am objecting to your asking the question, and I object to Mr. Linder being required to answer such questions. May I state my objection and I will make a point of order against your question?

I may agree with you completely as to the things that you are saying and what you are trying to say——

Mr. FINO. I am only asking Mr. Linder for his comments.

Mr. MULTER. I make a point of order.

Mr. Linder made it perfectly clear that this Bank must follow the policies laid down by the executive departments and in accordance with his oath of office that he has taken, he is going to follow that policy. It is not for him to comment upon the policy made by other departments, nor for him to comment upon anything that Mr. Katzenbach may say for the State Department or the Secretary of Commerce may say for his Department. I think it is unfair and improper to ask Mr. Linder to comment on this. The letters are in the record in full.

Mr. FINO. If you were listening you would know that the question was in connection with the Wall Street Journal article.

Mr. MULTER. You have not been here during the time Mr. Linder repeated and repeated and repeated that he does not make our foreign policy.

Mr. FINO. I have been here. I heard him say it.

The CHAIRMAN. Let us have an understanding of what is happening here. Mr. Fino took his turn in the beginning and he said he had some more questions that he would like to have answered. I felt obligated to recognize Mr. Fino, after all the other members had been given an opportunity, to continue those questions and I think if he does not have an opportunity to ask them all now that he should submit them to Mr. Linder and let him answer them in the record.

Would that be satisfactory?

Mr. HANNA. Point of personal privilege. Mr. Fino mentio
name in his comments and I would like to make it clear tl
my colleague from New York in saying that I am willing to

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that everything Mr. Fino has to say are stipulated, but it has nothing to do with the legislation that is before us. I think if he wants to make a speech against foreign policy he is entitled to make a speech and he should make it on the floor or anyplace else.

Mr. FINO. Mr. Hanna, if the gentleman will pay attention he will know that Mr. Katzenbach made the point.

Mr. HANNA. I would like to make the point that Mr. Katzenbach's letter states, "I would like to comment on the questions members of your committee raised during the testimony this morning by Mr. Linder." He did not say he wants to make a comment on what Mr. Linder said. You should take him on for answering it. That is my observation. Thank you.

The CHAIRMAN. The time is so near to the bell—will the gentleman submit his questions and let us agree on it?

Mr. FINO. One question.

Mr. MULTER. I want to press my objection. My point of order is made regardless of whether these questions are asked now or are submitted in writing to Mr. Linder. I protest against Mr. Linder being required to answer any questions commenting upon what other people have said or on the foreign policy of this country with the making of which he has nothing to do except so far as his advice may be sought.

The CHAIRMAN. I think it is fair to say if Mr. Linder does not want to answer any question or comment on it, it will be perfectly in order for him to fail or to refuse to do so and then, if the committee wants to pursue it further, we will take it up. Is that satisfactory?

Mr. FINO. Mr. Linder, let me ask you just this one question. I know we are reaching the bell time.

How do you justify using U.S. Government resources to enable Fiat to make profits by helping the Soviets set up their automobile and export facilities which will compete with the U.S.-owned companies overseas like GM's Opel in Germany, Ford in England, and Chrysler's Simca?

Mr. LINDER. I do not know that they will compete, Mr. Fino. I justify all of our business on the basis that we finance the sale of U.S. goods and services—U.S. products.

Mr. FINO. Let me ask you, have you made any loans to any of these companies, GM, or Ford, or Chrysler?

Mr. LINDER. I think we have a loan to what has become a subsidiary of Chrysler; namely, Simca in France. I do not recall any loans to any European subsidiaries of GM or Ford. We do have a loan to a subsidiary of Chrysler in Mexico. I think that is all I can say.

Mr. FINO. You are making loans to competing companies, are you not?

Mr. LINDER. We frequently do.

Mr. FINO. I am talking about competing companies for U.S. products.

Mr. LINDER. We frequently do. We make loans to Anaconda and Kennecutt in Chile. We could not sell any American airplanes unless the buyer was competing with American airlines. That is to say, if you want to sell Douglas and Boeing planes, you are going to sell them to SAS, Air France, Sabena—I do not need to list all of the airlines of the world—which are competing Pan American, with TWA, with Braniff.

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Mr. FINO. Mr. Linder, I just want to make this one observation. I do not want you to feel that with all of these questions that I have propounded or the statements I have made are any reflection on your integrity, prestige, and your ability and the fine job you are doing with the Bank. I am just trying to get to the facts and trying to find out exactly where we are going and I thought that if you can answer the questions it might help this committee.

Mr. MIZE. Will the gentleman yield?

Mr. MULTER. May I make a very brief observation? When the Export-Import Bank made a loan to the United Arab Republic, I protested not to the Bank but to the Eisenhower administration whose foreign policy the Bank was then following. I did not like it then and and I do not like it now, I do not like making any loans to people who appear to be, appear to be, I say, I say even though it may not be, if they appear to be unfriendly to the United States. I will not protest to Mr. Linder or to his organization. I will protest, when I think it is proper, to those who make the foreign policy and I think you should do the same. This is not impugning your motives nor those of anyone else.

Mr. FINO. You know the purposes of the witnesses are to answer questions and if they can answer the questions or are willing to answer the question, fine. If they can't all they have to do is say so.

Mr. MULTER. The purpose, however, is not to badger witnesses.

(The questions of Mr. Multer follow:)

Mr. MULTER. Will the Export-Import Bank make or has it made any loan or issued any guarantee that runs contrary to the foreign policy of the United States?

Mr. LINDER. The Export-Import Bank has never made any loan or issued a guarantee which was contrary to the foreign policy of the United States as determined by the State Department. Every loan and each important guarantee is reviewed by the State Department and other members of the National Advisory Council on International Monetary and Financial Policies.

Mr. MULTER. All Government agencies doing business with small firms, or doing business which affects small firms, have always maintained at the highest possible echelon in such agency or department one or more professionals responsible for the small business activity. This function has been carried out in this manner in order to guarantee that the congressional intent to sustain small business is maintained. Do you have such a special assistant? If not, will you recommend the appointment of a Special Assistant for Small Business Affairs responsible either to the Board or to the President and Chairman of the Board?

Mr. LINDER. The Bank has a Business Liaison Office which already performs the functions outlined in the question. The Bank is a relatively small agency of 300 employees and it is not considered necessary to have a special assistant to coordinate the staff functions in this area. There is a vice president who is responsible for overseeing the activities of the Business Liaison Office. In this connection, I would be happy to insert in the record a copy of my statement before the Senate Select Committee on Small Business at a hearing on March 14, 1967.

STATEMENT OF HAROLD F. LINDER, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF WASHINGTON BEFORE THE SENATE SELECT COMMITTEE ON SMALL BUSINESS

"Mr. Chairman, it is indeed a pleasure to appear before your con ttee to to discuss the role of the Export-Import Bank in assisting the ..ler en prises of this country to export their goods and services. Before u u direct relationship of the Bank's activities to the small business ... believe that it would be useful to summarize briefly the Bank's o programs.

"Eximbank, which was established in 1934, is an independent ... U.S. Government. Its purpose is to assist in financing the foreign ...

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United States. Although our name implies a concern with imports as well as exports, we have done little import financing because there are ample private facilities available for this purpose and because it is normal—customary—in domestic as well as international business for the seller (i.e., the exporter) to provide credit to the buyer. Consequently, we are in fact an export financing agency. All of our loans, as well as our guarantees and insurance, are tied to exports of U.S. goods and services. Our loans are in dollars, and they are repayable in dollars.

"The statute under which we operate, the Export-Import Bank Act of 1945, as amended, requires that we make loans only on which there is a reasonable assurance of repayment; and the law also requires that the Bank supplement and encourage, and not compete with, private capital.

"As presently in force, our act allows us to have outstanding loans, guarantees, and insurance of $9 billion. However, there is now pending before the Banking and Currency Committees proposed legislation which would raise this ceiling by $4.5 billion, to a total of $13.5 billion.

"The Bank operates four principal programs: (1) direct loans; (2) guarantees; (3) insurance; and (4) our newly instituted discount loan facility. As its name implies, a direct loan is negotiated directly between Eximbank and the foreign borrower. The purpose of these loans is usually to finance the purchase of capital goods from the United States. Almost always, the loan is either for specific pieces of equipment; for example, airplanes or electric generators, or for a specific project; i.e., all or a substantial portion of all the equipment needed to establish or expand a specific industrial enterprise. During its 33 years of operation the Bank has authorized more than $17 billion of loans. We have currently on our books loans receivable and undisbursed authorizations of $6 billion.

"Loans of the type just described have been a mainstay of Eximbank's activity over the years. However, by 1961 the exigencies of our balance-of-payments position and the resulting urgency of increasing our exports convinced the Bank that we should offer a broader range of assistance to exporters than was offered by the direct loan program and our so-called exporter credit program. To this end, as well as to encourage the increased participation of the banking and insurance communities in the task of stimulating exports, our guarantee and insurance programs were established.

"In 1961 the Bank, in conjunction with some 60 of the country's principal marine, casualty, and property insurance companies, set up the Foreign Credit Insurance Association, or FCIA, which provides insurance to our exporters against credit risks on both short- and medium-term export transactions. Policies are available on either a comprehensive basis, covering both political and credit risks, or on a political-risks-only basis.

"Short-term insurance relates to exports sold on terms normally no longer than 180 days. The exporter is required to present for cover and pay premiums on enough of his short-term export transactions to give FCIA a reasonable spread of risk—that is to say, his sales to good markets as well as to bad. This procedure prevents the exporter from insuring only his most risky transactions and permits FCIA to keep its premiums at reasonable rates. The insured exporter is granted a maximum liability limit on all his sales, as well as an individual limit on each of his buyers. FCIA insures for its own account the commercial risk on all policies up to a maximum amount agreed upon with Eximbank, which reinsures the commercial risk in excess of this amount. Eximbank also reinsures the entire political risk.

"FCIA's medium-term insurance covers export sales on terms of 181 days to 5 years and occasionally longer, and is generally issued on a case-by-case basis. Since the inception of the insurance program some $3 billion of short-term coverage has been authorized under more than 7,000 policies, including renewals. Under the medium-term insurance program, more than 3,700 policies totaling $310 million have been authorized.

"More significant thus far than the medium-term insurance program is our medium-term commercial bank guarantee program, designed to encourage commercial banks to expand their financing of exports. The program is similar to the insurance program in many respects, but several points are worthy of note. First, we will issue our guarantee only if the commercial bank is extending credit to the exporter without recourse to that exporter in the event the foreign buyer fails to pay. This is important, since normal banking procedure is to extend export financing only on a recourse basis. The commercial bank program involves the provision of the necessary funds by the commercial bank to the exporter, wh[illegible] FCIA program the exporter will not infrequently finance the

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transaction himself, although many exporters whose transactions are insured assign the proceeds of their policies to their banks, and thus obtain the necessary funds. To date, authorizations under the guarantee program have exceeded $700 million.

"The fourth and most recently instituted of Eximbank's programs is the so-called Eximbank discount program, begun in September of last year as a means of increasing the liquidity of export debt obligations in the hands of commercial banks. The program has proved helpful in alleviating some of the effects on export credits of the tight money conditions which have prevailed in the recent past. Under this program a commercial bank may borrow from Eximbank to the extent of a certain percentage of its holdings of foreign debt obligations arising out of U.S. export transactions. We have extended some $70 million of loans of this type, but we believe that in addition the existence of this facility has had a salutary effect on the attitude of our commercial banks toward export against domestic financing.

"There are also several variations on the kinds of export credit assistance I have described, such as financial guarantees and emergency foreign trade loans, but what I have outlined comprises the bulk of our business which I think is of direct interest to this committee.

"How do these programs benefit our country's small businesses? The answer is that the benefits are many, both direct and indirect. Let me begin with our direct loans. The size of our average direct loans might lead one to conclude that large enterprises, capable of turning out heavy capital equipment, are the sole beneficiaries of these credits, and that small businesses profit only marginally if at all from such transactions. Such is far from the case, for subcontractors often supply a major percentage of the equipment to be exported and financed under our loan. Moreover, the borrower himself may be and frequently is using our credit to purchase items from many U.S. suppliers.

"A good example of the role which small business can play in the filling of a large export order financed by a direct loan from the Bank is provided by the aircraft industry. Exports of commercial aircraft have become an increasingly important component of the U.S. trade surplus over the years. Due to the large size of the typical aircraft transaction, the terms required, and the general stringency of the money market in recent months, Eximbank has been called upon to provide a large share of the financing for these exports. To date the Bank has financed jet aircraft exports with a total contract value of more than $1.5 billion. In the current fiscal year alone we expect to finance $1 billion of aircraft exports.

"One of the leading prime contractors in this field, the Boeing Co., compiled a breakdown of the more than $1.4 billion which the company contracted out to its suppliers in 1966 on the commercial, as distinguished from military, side of its business. The data show that $268 million of this total went to small business firms, using the Small Business Administration's definition of that term. This is a good illustration of how a direct loan from the Bank, which in the first instance benefits a large corporation, can have highly significant benefits for thousands of small businessmen and their communities.

"More obvious, of course, are the benefits for small business provided by our guarantee and insurance programs, which are deliberately and specifically designed to make export credit more readily and conveniently available to the exporter, whether large or small. The Foreign Credit Insurance Association has its headquarters in New York City, but it also maintains offices in Houston, Cleveland, San Francisco, and Boston, will soon open an office in Chicago, and other offices in major cities are in the planning stage. Moreover, FCIA's export credit insurance is available through the thousands of insurance agents and brokers throughout the country who represent or work with the 60 private companies which are members of FCIA.

"The benefit of the short-term program to the small exporter of consumer goods is evident. FCIA has numerous revolving credit lines where the size of the average transaction is small indeed. But under the medium-term program as well, the small business community can and does utilize the facilities of FCIA. Although FCIA is not equipped to determine whether a policyholder fits the definition of a small business, a sample taken from 1966 data shows that 45.5 percent of FCIA medium-term policies issued during the year are for less than $25,000.

"Our commercial bank guarantee program takes advantage of and strengthens the already-existing link between an exporter and his banker. Eximbank's reliance upon the banker's intimate knowledge of his client's problems is especially helpful, we believe, to the small exporter who does not operate on a national

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scale and who does not know his way around the Government labyrinth. As a measure of the geographical spread of the commercial bank program, we have guarantee agreements with close to 90 different banks in 20 States and Puerto Rico covering the export transactions of hundreds of businesses.

"Although we are quite proud of the contribution our programs have made, we recognize that they must be modified from time to time to meet changing conditions. Last April we announced a series of changes, all designed to provide better, faster, and cheaper services to our exporters. Our programs are constantly under review, and as we see new areas for improvement or innovation we take appropriate action.

"We are occasionally asked what happened to our exporter credit program, to which I made passing reference earlier. Under that program, which was in operation for many years, an exporter who had sold his goods on deferred payment terms could receive partial financing for the credit directly from Eximbank. The answer is that the insurance and guarantee programs were designed to replace exporter credits. These programs are far more flexible from the exporter's standpoint and give him much easier access to the Bank's facilities than did the exporter credit route, which required a direct application to Eximbank in Washington rather than to the exporter's local bank or insurance agent. Moreover, the new programs are more in keeping with our statutory injunction to avoid competing with private capital, since they encourage the exporter to seek financing through private channels.

"In the past this committee has been interested in how we go about making our programs known to the small businessman. We of course have our own programs to achieve this, which I shall mention in a moment. But we are greatly aided by the efforts of the commercial banking community, through which we operate the bank guarantee program, and by the FCIA, its member insurance companies, and insurance agents and brokers throughout the country who sell FCIA insurance.

"Wtihin Eximbank, our Public Information Office prepares and distributes press releases on the Bank's individual loans and other newsworthy activities of the Bank, as well as a quarterly report and our annual report. That Office also arranges domestic and international news coverage of the authorization of all significant loans made by the Bank; it handles inquiries concerning our programs; and it maintains and uses a mailing list of some 5,000 banks, Government agencies, legal firms, exporters, and so forth, to whom we send regular notice of activity under all our programs as well as notification of any changes in our policies.

"In addition to our Public Information Office, we have a Business Liaison Office whose work is specifically directed at maintaining the flow of information and ideas between Eximbank and the business and banking communities. It does this through speeches to trade associations and similar groups, participation in panel discussions of export financing, briefings of Commerce Department personnel responsible for counseling the business community on the requirements and opportunities of export trade, visits to businessmen throughout the country, and similar means. And, of course, the Commerce Department, whose responsibility for export promotion ties in closely with our own for export financing, serves as an extremely important source of information on our programs.

"We at the Bank are eager to increase the participation of small and medium-size firms in the export trade of this country. Firms, once they have entered the export market, will frequently be able to expand their sales so that in aggregate they are able to make significant contributions to the favorable side of our balance of payments. Thus we feel that Eximbank, by reducing the smaller exporter's risks of selling abroad on credit and helping him to overcome the perennial problem of limited working capital, makes a signficant contribution to innumerable small firms, to our balance of payments, and to the health of a world economy which is so dependent on a free exchange of goods."

Mr. MULTER. I believe that all financing arrangements for development projects made by the Export-Import Bank (Eximbank) include a "Buy American" clause. Is there also a "Buy Small Business" clause in your agreements? If not, will you recommend that such clause be inserted in order to implement the congressional intent?

Mr. LINDER. Small business is a beneficiary of many of loans made for development projects abroad either as direct suppliers or as subcontracters to prime suppliers. However, the inclusion of a "Buy Small Business" clause in the Bank's loan agreements would be counterproductive since it would infringe on the freedom of the foreign borrower to purchase freely and thereby possibly have an adverse effect on U.S. exports. There are few products for which the United States

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is the only source of supply, and it would impair our competitive position to impose on foreign purchasers restrictions of this nature which limit their choice of U.S. suppliers.

Mr. MULTER. Please advise the number of insurance policies you have either issued or guaranteed to small business firms and supply the details about them, indicating which are manufacturers and which are exporters.

Mr. LINDER. Statistics are not available which would show the breakdown of insurance policies and guarantees authorized to cover exports of small business firms, of manufacturers, and of exporters. However, the following sample of the 1966 data for the medium-term FCIA and Eximbank programs indicates that a large percentage of the policies and guarantees issued are in relatively small dollar amounts. Therefore, there is a strong presumption that many were written for small business firms. At the very least, the data demonstrate that FCIA and Eximbank do not discriminate against small transactions or small firms.

Medium-term insurance and guarantees authorized by FCIA and Eximbank during calendar year 1966

	Total number	Percent of sample		
		Under $25,000	$25,000 to $250,000	Over $250,000
Eximbank guarantees	720	24.8	54.1	21.1
FCIA insurance	1,067	45.5	46.8	7.7

NOTE.—Percentages for medium-term guarantees and insurance are based on the months of March and September of 1966. The number of guarantees and insurance are for the entire year.

Mr. MULTER. Is one of your requirements for small business to have the small business firm's bank make a loan commitment before you will guarantee it?

Mr. LINDER. No. The Bank does not require the commercial bank to make a commitment in advance. In fact, commercial banks often inquire whether Eximbank will issue its guarantee covering a proposed transaction before they decide to provide financing. Eximbank's present guaranty and insurance programs were specifically designed to make it easier for small business to obtain assistance. Instead of having to deal with a far-off agency in Washington, a firm can now go to its local bank or insurance broker and obtain nonrecourse financing or insurance on the strength of Eximbank's offer of a guaranty to the commercial bank or reinsurance of FCIA policies.

Mr. MULTER. Please give us the number and dollar amount of the loans you have made to small business firms.

How many project loans have you made to small business and what is the aggregate amount and the terms?

Mr. LINDER. To answer both these questions, Eximbank makes two kinds of direct loans: (1) loans to foreign borrowers to buy U.S. goods; and (2) discount loans to U.S. commercial banks. As in the case of insurance and guarantees, we do not have data on the volume of loans to small businesses abroad.

It is also impossible for us to tell exactly how many small businesses in the United States benefit from our direct loans to foreigners. However, as I pointed out in my testimony in March before the Senate Select Committee on Small Business, the commercial aircraft industry provides a good example of how Eximbank's direct loans benefit small businesses as well as large. This industry has benefited from more than $1 billion of Eximbank loan authorizations. Notwithstanding the fact that in most transactions of this type the prime contractor is one of the large manufacturers of commercial aircraft, data recently compiled by the Boeing Co. shows that the sale of a jet aircraft means a great deal of business for many small suppliers. They show that in 1966 $268 million of the $1.4 billion committed to Boeing's commercial aircraft program was contracted out to small business firms. We believe that such benefit to small business under our direct loans is typical of many other industries.

Mr. MULTER. In the event a small business concern desires to sell mach
to a foreign government, who makes the request to the Eximbank—(a)
firm, or (b) the foreign government?

It has come to my attention that the Eximbank will not disc
firm whether Eximbank will finance an export until the fo

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... raises the question. If that is so, kindly advise the committee how ... business concerns can bid, if it does not know in advance whether any ... be available.

... Again, answering both questions, if a small business concern ... carrier, or desires an advance commitment that financing or credit ... will be available in the event it is able to negotiate a sale or is the ... bidder on a call for tenders by a foreign government or any other ... the purchaser abroad, the small firm may apply to either its commercial ... financing or to the FCIA for insurance coverage. The commercial ... may in turn apply to Eximbank for an export credit guarantee. If the ... is unable to obtain assistance from these sources, Eximbank may consider ... direct application for financing or a guarantee. This assumes that the credit ... be on medium-term.

If long-term financing is appropriate, either the exporter or the foreign purchases may initiate discussions with Eximbank. Eventually, of course, the Bank will insist upon direct contact with the foreign purchaser in this type of case since the foreign purchases will have to sign a loan agreement with Eximbank. This will normally be true when the financing is part of a large, complex project and it is necessary to obtain technical and financial information as to the soundness of the proposal. In such cases there are usually many individual suppliers furnishing various parts of the entire plant or facility, none of whom knows or can easily obtain the data from the prospective purchaser which are vital to the Bank's determination of whether the project has been properly planned and affords the reasonable assurance of repayment called for by the Bank's statute.

Mr. MULTER. In the event that a sales contract is entered into by a small business concern on a barter basis, would the Eximbank lend the small business concern the money, or part of it, until such small business concern has the opportunity to sell the item or items it received in barter?

Mr. LINDER. In the circumstances described in this question it is unlikely that the Bank's assistance would be required, since the exporter would probably be able to obtain from a commercial bank interim financing pending ultimate sales, using the goods received in barter as collateral. Private financing is generally available for import transactions. In any event, the Export-Import Bank has very rarely been called upon for assistance in barter arrangements.

Mr. MULTER. In the event a small business exporter desired a supplier guarantee in order to sell to a foreign purchaser on credit, would the Eximbank make a prebid commitment to the small exporter in order for him to be able to include such commitments in his bid?

Mr. LINDER. Yes. The Bank frequently gives advance commitments for guarantees or insurance wherever the information furnished regarding the creditworthiness of the proposed purchaser is sufficient to permit the Bank to judge whether the transaction meets its usual standards.

Mr. MULTER. I believe the Eximbank has granted certain commercial banks authority to commit the Eximbank in order to expedite and facilitate exports not in excess of $500,000. Please tell us the number and aggregate dollar amount of such commitments to small business.

Mr. LINDER. In order to expedite assistance given to small exporters, Eximbank has granted discretionary authority to both commercial banks and FCIA under certain conditions to commit Eximbank in advance on medium-term transactions. Those commercial banks which have had at least one successful transaction with Eximbank have been given the authority to commit Eximbank on transactions not exceeding a contract value of $1 million in "A" markets and $500,000 in "B" markets, these being the better risk countries. Similar commitment authority has been granted to FCIA in the amount of $600,000 of contract price in "A" markets and $300,000 in "B" markets.

The data which has been furnished to Eximbank by the commercial banks and FCIA on such transactions does not indicate the extent to which these facilities have been used by small business firms.

Mr. MULTER. Has any part of the money set aside pursuant to the President's directive to facilitate East-West trade been made available to date to assist and facilitate small business exporters to East European countries and, if so, how much?

Mr. LINDER. No money has been set aside to facilitate East-West trade, nor has the President directed that this be done. Under Eximbank's loan, guarantee, and insurance programs, we do not establish quotas on the amount of commitments which we are prepared to make either by country and region, by the type of

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product, or by size of the exporter. Transactions are considered as they arise in light of the prevailing circumstances. Our experience, however, indicates that small business exporters have not participated substantially in sales made with Eximbank support to eastern European markets.

(The questions of Mr. Fino, submitted to Mr. Linder for reply in the record, follow:)

Mr. FINO. Inasmuch as the Eximbank will finance the Fiat deal through a foreign loan, this will have an adverse effect on the U.S. balance of payments, and presumably the President anticipates many more loans to the Communists, which means that the balance-of-payments aspect of all this is going to get worse. How do you justify adding to the U.S. balance-of-payments burden to finance a deal like this?

Mr. LINDER. Any loan the Bank may extend to finance the Fiat proposal would have a favorable—not an adverse—effect upon the U.S. balance of payments. As in the case of other loans made by the Bank, the initial effect on the U.S. balance of payments would be neutral, since the disbursements on the loan would be offset by the corresponding exports. When the loan is subsequently repaid, however, both the principal and interest payments would be recorded as plus items in the U.S. balance of payments.

If by your question you mean that the favorable balance-of-payments effect of an immediate cash payment for the items to be sold will be deferred over the period of the credit, the answer is that in this case there will be no sale, and therefore no balance-of-payments income at any time, unless export credit is available to finance the sale.

Mr. FINO. Presumbaly the President expects to use the Eximbank to extend credits to the Soviet bloc. I say this because East-West trade will have to be built on credits, because they have nothing we want in trade. What proportion of our trade with the East would you expect to be financed by credits, and what good does such trade do us?

Mr. LINDER. We know of no exports to Communist countries which have been done on credit without Eximbank guarantee or insurance coverage. The proportion of U.S. exports to Soviet Russia and the countries of Eastern Europe which the Export-Import Bank has assisted with its credit facilities has been relatively small. Consequently, we assume that most of this business is done for cash, but the credit portion is not insignificant. We do not at this time expect any large increase in this trade or in the proportion which we will be called upon to assist in financing. It is conceivable, however, that there may be some growth in this area if the conditions of trade are liberalized.

The benefits of such trade are similiar to those derived from trade with other areas insofar as contributions to our balance of payments and our employment and income levels are concerned. In addition, it is expected that trade with Eastern Europe may result in intangible but nevertheless important easings of political tensions.

Mr. FINO. I imagine you are familiar with the difficulties that the Krupp financial combine in Germany has gotten itself into. I say this because those difficulties are largely a function of having relied on expanding sales through giving credits to the Communist bloc. You people really ought to study the Krupp experience. Let me read you a short excerpt from a newspaper article of March 27 of this year, written by economist Eliot Janeway.

"Krupp never had a chance. * * * For its big export successes were racked up behind the Iron Curtain. And the Soviet states * * * will jump at the chance to buy anything offered to them—just so long as they don't have to start paying for it inside of 5 years. * * *"

For Krupp's Soviet customers, the free ride has been a joyride for years on end—until Krupp's salesmen finally ran out of gas. The creditors, in declaring the party over, have set hard conditions. Krupp's manager, who is the supersalesman and self-styled unofficial ambassador in the Soviet sector, is to be superseded by a banker. The bankers, moreover, have told the Government that if Krupp was carrying its Soviet customers as an accommodation for foreign policy, the Government and not the banks should hold the bag, and the Government is to the tune of a new $75 million export credit guarantee for Krupp.

I would appreciate your comment on the lessons of the Krupp deals, because while I know that the Fiat deal only involves a U.S. loan to Italy, even though it will be used in Russia, I am sure that the President has direct loans to the Communist bloc in mind.

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Mr. LINDER. I am not familiar with all the details of Krupp's financial difficulties. My impression, however, is that Krupp extended relatively long-term credits to its customers while it was obtaining funds for its own operations on the basis of short-term borrowings. Since I know of no evidence that Communist buyers have failed to meet such of their obligations to Krupp as may have come due, it would seem that the principal source of Krupp's difficulties has been poor financial management.

Mr. FINO. In connection with the question of giving credits to the Soviets, I would like to ask you about a deal Eximbank has recently made with Hungary. I refer to the deal whereby Eximbank is guaranteeing a $15 million loan to Hungary for the purchase of agricultural products. I understand that the Bank is supposed to limit itself to "commercial terms" with respect to making or insuring loans for the purchase of perishables, but the loan to Hungary calls for no money down and 3 years to pay. By Eximbank definitions, "commercial terms" encompass no weaker a deal than 25 percent down and 18 months to pay. Why did your Bank insure this loan to Hungary—did the administration intervene for political bridge-building reasons? (Information source—Mar. 20, 1967, Barron's article.)

Mr. LINDER. In spite of the statement attributed by Barron's to an Eximbank official, the Bank does not have hard and fast rules as to what constitutes "commercial terms" since such terms will vary with changes in world competitive conditions and with the transaction under consideration. Moreover, we certainly do not define "commercial terms" in the case of agricultural products so rigidly as 25 percent down and 18 months to pay. Other countries which are our competitors have been granting 3-year terms for agricultural products for several years. In the circumstances the Board concluded that the terms requested in the Hungarian case were appropriate.

The Bank did not guarantee the loan to Hungary "because of administration intervention." The basis for the authorization was the Bank's own judgment that U.S. exports would be made possible by the guarantee, and that there existed reasonable assurance of repayment of the private credit being guaranteed.

Mr. FINO. To what extent does the Hungarian loan represent a new policy direction? Do you intend to use the new guarantee authority to guarantee more of these commercially questionable loans to the Communist bloc?

Mr. LINDER. The Hungarian guarantee in no way represents a new policy direction. The issuance of the guarantee is based on the February 1964 determination of President Johnson that such transactions were in the national interest in certain Eastern European countries, including Hungary.

The Bank has no intention of guaranteeing any commercially questionable loans to any country, including Eastern European countries.

Mr. FINO. I have introduced a bill to prohibit Eximbank from insuring, guaranteeing or financing agricultural exports except on "commercial terms" of 25 percent down and 18 months to pay (or better). Do you support this principle? Could you accept the amendment?

Mr. LINDER. The Bank would be most reluctant to accept an amendment such as that proposed. One of the great advantages which we have under our present statute is that we are not bound by any arbitrary formulas with respect to the terms upon which we can transact our business. The policy of the Bank is always to limit its financing to the minimum credit term which in the judgment of the Board is required to facilitate the export sale. The concept of "commercial terms" is not a static one but changes in accordance with the prevailing practice in international trade. Moreover, there are occasions in which one or more countries which are competitors of the United States may offer terms in excess of those prevailing at the time. It would be undesirable to place the Bank in a position where it could not match such offers when it was in the interest of the United States to do so.

Mr. FINO. At the present time, under the authority of a decision by President Johnson, the Eximbank may insure or guarantee—on commercial terms—the sale of agricultural commodities to Russia, Poland, Hungary, Czechoslovakia, Bulgaria and Rumania. Under the present law, would it be within the President's power, without consulting Congress, to decide to allow the Eximbank to finance such trade through direct loans?

Mr. LINDER. The Bank considers that in keeping with the spirit and intent of the congressional limitation upon the use of its funds as contained in the Foreign Assistance and Related Agencies Appropriation Acts of 1964 and subsequent years, the President must make a determination of national interest before the Bank may utilize any of its funds to participate in financing trade with

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any of the Eastern European countries, irrespective of whether such participation is in the form of direct loans, guarantees, or insurance, and that the President must report his determinations of national interest both to the House of Representatives and to the Senate.

Mr. FINO. The reason I ask this question is because in January 1966, the Department of Agriculture asked you to finance the export of agricultural commodities on liberal credit terms of up to 3 years. The Department of Agriculture now has a new program in its export credit sales program which can be used to have the Federal Government buy private agricultural commodity stocks and sell them abroad. This is not covered by the Findley amendment to the Food for Peace Act, and the administration intends to use this program to make large-scale credit sales to the Communist bloc just like the deal you made with Hungary. Do you know of any plans to give you authority to make these credit arrangements so as to standardize the type of deal you made with Hungary? (Source: Barron's article on Commodity Credit Corporation, February 1967.)

Mr. LINDER. No.

Mr. FINO. At the present time, U.S. oil companies are selling Iran-produced oil to the Soviets with the encouragement of the State Department (letter of Assistant State Secretary Macomber to Representative Fino) and many U.S. firms in Europe are selling to the Communists through foreign subsidiaries. Do you plan to give guarantee, insurance and loan preference to companies which use their overseas subsidiaries to trade in goods with the Soviets which public outcry might prevent here at home?

Mr. LINDER. The Bank does not give preference to any particular class of borrowers or exporters. All U.S. firms which meet the Bank's financial criteria are eligible for assistance so long as they are not engaged in activities which are prohibited by law or are not in accord with the foreign policy of the United States.

Mr. FINO. Recently, U.S. export licenses have been granted to ship airborne radar equipment, turbines, and generators to Bulgaria; hydrogen plants, pyrotechnical rocket engines, and nuclear radiation detection instruments to Czechoslovakia; and so forth. Has Eximbank insured, guaranteed, or financed any of these transactions? Do you plan to do so more heavily in the future?

Mr. LINDER. The Bank has not participated in these transactions. As for the future, the Bank considers cases as they are presented for the Bank's approval, not before.

Mr. FINO. My Eximbank amendments bill includes a provision expressing the sense of Congress that Eximbank should not make further loans for which private credit resources are available. I would like you to comment on the attitude the Bank has recently shown toward supplanting private credit as summed up by Barron's weekly in a March 20, 1967, story:

"Historically, the institution has prided itself on seeking to supplement rather than supplant private capital. Now, however, owing to the so-called voluntary restraints on commercial bank lending abroad, which fail to apply in its case, Eximbank has willy-nilly acquired a privileged status * * *. In the first half of fiscal 1967, Eximbank was doing business at an annual rate of over $2.5 billion.

"Much of the gain has come from direct export loans, which at $980 million for the last 6 months, nearly equaled the total for fiscal 1966. Theoretically, of course, Eximbank doesn't compete with private lenders, but the principle is honored more or less in the breach * * *. By charging less than the traffic will bear—a $56 million loan to Aeronaves de Mexico was made last fall at 5½ percent, perhaps half the going rate south of the border and roughly its own borrowing costs—Eximbank has inevitably siphoned business away from commercial channels. Owing to the voluntary restraints on private foreign lending, the occasional lapse now has been elevated to high public policy."

Mr. LINDER. The Bank has always been mindful of the congressional policy that it should supplement and not compete with private capital. I disagree completely with the article which you quoted from Barron's weekly of March 20, 1967. The tight money market which existed during fiscal 1966 did result in the Export-Import Bank's having to finance many transactions which under more normal circumstances might have been financed by the private banking system. However, in every case the Bank has satisfied itself that private capital was not available on reasonable terms before authorizing the credit. A comparison of the Export-Import Bank's lending rate with the level of interest rates prevailing in the foreign purchasing country is irrelevant. For dollar loans such as those made by the Export-Import Bank the germane considerations relate to the structure

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of interest rates in the United States, which is the source of the funds loaned abroad.

Mr. FINO. During the mid-1950's, Senator Paul Douglas of Illinois assailed the Eximbank for making loans to Argentina's dictator Juan Peron. Whatever happened to those loans? Did you collect on them? (Barron's, March 20)

Mr. LINDER. Yes, we have collected or are collecting on loans made to Argentine enterprises during that period.

Mr. FINO. What is your policy toward foreign airlines? Why do you give them huge loans? I refer to the loan which you were ready to make last year to Middle East Airlines, but which was canceled when the Intra Bank of Lebanon failed last year, and also to the unjustifiable loan to Aeronaves de Mexico. (Barron's, March 20)

Mr. LINDER. The Bank makes loans to foreign airlines to assist them in purchasing U.S. equipment wherever it can be demonstrated that the purchaser is capable of utilizing such equipment effectively and can repay the loan. The Bank always determines in such cases that the funds required are not available on reasonable terms in the private market and that the Federal Aviation Agency and the State Department perceive no policy objections.

Mr. FINO. Recently Eximbank made a loan to oil-rich Kuwait, which has so much money that even third-rate sheiks ride in air-conditioned Cadillacs. How do you justify that loan? (Barron's, March 20)

Mr. LINDER. The fact that a country is rich is no reason to deny it credit. Countries, just as wealthy individuals, frequently like to make purchases on credit and it would obviously be fatuous for a banker to refuse a loan to an A–1 customer solely on the grounds that the purchase could be paid for in cash. Since other countries would not hesitate to extend credit to Kuwait to finance their own exports, our refusal to lend on competitive terms would only mean that the United States would lose the export business and forgo the potential balance-of-payments benefits.

Mr. FINO. A recent Eximbank prospectus listed some $50 million in defaulted loans from the United Arab Republic and Indonesia. Why did we make those loans, and what is the status of those loans now?

Mr. LINDER. The loans to the United Arab Republic were authorized in 1960 and 1963 to assist in financing purchases of U.S. diesel locomotives and related equipment by the Government. On March 31, 1967, the outstanding balance of these loans was $25.7 million. Delinquent installments totaled $2.1 million of principal and $1.1 million of interest.

The loans to Indonesia were authorized in the period 1950–60 to assist in financing U.S. exports for a fertilizer plant, a powerplant, a cement plant, and other enterprises important to the Indonesian economy. On March 31, 1967, the outstanding balance of these loans was $80.7 million. Delinquent installments totaled $16.1 million of principal and $4.9 million of interest.

Mr. FINO. Last fall, in an effort to reach a settlement with Bolivia on a loan, the Bank waived the payment of $10 million in interest arrears. Who decides on such concessions? Isn't this a bad way to run a bank?

Mr. LINDER. Decisions to waive interest payments on loans such as in the case of Bolivia are made by the President of the Bank after consultation with other Board members. The judgment to do so in this case and a few other instances is based on the conviction that it is the best way to induce a resumption of payments by a governmental borrower which has been in default for a number of years.

Bolivia had not made any payments to the Bank on account of either principal or interest for many years prior to the recent refunding arrangements. It was our belief after examining all the facts and after reviewing the situation with other interested agencies that the best interests of the Bank and the U.S. Government as a creditor would best be served by offering the concession to waive interest payments which had accrued but not been paid during the period from June 1948 to July 1966. This waiver is conditional; it will become effective only in installments as payments are received in accordance with the reamortization schedule.

Mr. FINO. Suppose the Moscow Narodny Bank, which is Russia's trade financing bank headquartered in Moscow and London, gave a U.S. exporter a loan to export to Russia or some other country. Could you and would you insure or guarantee such a loan?

Mr. LINDER. We do not believe that the hypothetical situation described would ever occur in practice, but if it should it is most unlikely that the Bank would participate in such a transaction.

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Mr. FINO. The actual new loan, insurance and guarantee authority you would have under the bill before us today is more than $4.5 billion, isn't it? Would you explain how to calculate the figure?

Mr. LINDER. The actual new loan, insurance, and guarantee authority which the new bill would grant us would be precisely $4.5 billion. However, since $1.5 billion of the amount could be for authorizations of guarantees and insurance on a 25 percent reserve basis, the new bill would allow us to increase the amount of authorizations which could be outstanding at any one time by more than $4.5 billion.

The $4.5 billion figure was reached after taking into account pending requests and inquiries and the experience of the past year in which there has been a marked increase in the demand for Eximbank financing of exports. We also estimated the potential demand during the 5-year period from fiscal 1968 through fiscal 1973 for financing of some of the most important U.S. export products, such as commercial jet aircraft, telecommunications equipment, and nuclear reactors and fuel. Our projections indicate that we can expect demands for financing in these three areas alone which could account for a substantial portion of the $4.5 billion. Such firm requests total around $1 billion dollars. Moreover, we have a good idea of the amount of business that we are going to be called upon to finance within the next year. All of the above factors led us to conclude that $4.5 billion would be a reasonable, if conservative, figure of the need for increased authorizations.

The CHAIRMAN. The members will suspend.

For the committee, Mr. Linder, I would like to thank you very much for your testimony. Also, thank the members of your Board and your associates. We appreciate it very much.

If we need you we will call you again. Thank you.

Mr. LINDER. Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. The committee will stand in recess, subject to the call of the Chair.

(Whereupon, at 12 o'clock noon the committee adjourned, subject to the call of the Chair.)

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TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945

FRIDAY, APRIL 28, 1967

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Multer, Reuss, Ashley, Moorhead, Gonzalez, Minish, Gettys, Annunzio, Rees, Bingham, Galifianakis, Bevill, Kyros, Widnall, Fino, Mrs. Dwyer, Halpern, Clawson, Lloyd, Blackburn, and Brown.

The CHAIRMAN. The committee will please come to order.

The hearing this morning is for the purpose of discussing with representatives of the Department of State, the Department of Commerce, and the Department of Defense the administration's position on H.R. 6649, a bill to extend the life of the Export-Import Bank by 5 years and to increase its authority to extend credit, guarantee loans, and continue its credit insurance program from the present level of $9 to $13.5 billion.

More specifically, Congressman Widnall and others requested at the close of the hearings on this bill on April 12 that the committee hear from representatives of these agencies, particularly with respect to the proposed so-called Fiat loan, which is said to possibly involve American exports of roughly $50 million in connection with the building of a Fiat automobile plant in the Soviet Union.

Our witnesses this morning are Mr. John M. Leddy, Assistant Secretary of State for European Affairs; Mr. Lawrence C. McQuade, Acting Assistant Secretary for Domestic and International Trade; and Mr. John T. McNaughton, Assistant Secretary of Defense for International Security Affairs.

It is my understanding that each of these gentlemen has a short statement after which they are available for questioning by members of the committee.

At this point I would like to read into the record messages which I just received from the Chairman of the Joint Chiefs of Staff, General Earle Wheeler, and from the Deputy Secretary of Defense, Cyrus Vance.

The letter from Mr. Vance is dated April 27, 1967, and reads as follows:

DEAR MR. CHAIRMAN: You have asked me to inform you as to the position of the Department of Defense concerning the proposed loan by the Export-Import Bank in response to a request from the Italian Government for a loan of $50

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million to be used for the purchase (in the United States) of equipment for an automobile plant which Fiat will build in the U.S.S.R. The Department of Defense favors the making of this loan.

It is our understanding that the terms of the loan would provide for repayment within 5 years. It should be noted that the loan would be for the express purpose of purchasing plant equipment within the United States. This would assist in correcting our currently unfavorable international balance-of-payments problem. It would support the increased emphasis which the U.S.S.R. is putting on using its resources to produce consumer goods. Related thereto, we must recognize that the greater the amount of the gross national product which the Soviet Union places on consumer goods, the less they can devote to military hardware, forces, and facilities.

In sum, while the principal gains to the United States would seem to be political and economic in nature, a loan of $50 million, guaranteed by a responsibe third nation, for the purpose of inducing Soviet Union to devote greater resources to consumer goods at the expense of applying them to military purposes is in our national interest.

This project was fully discussed at the Senior Interdepartmental Group meeting on May 31, 1966. General Wheeler, the Chairman of the Joint Chiefs of Staff, who is also a member of this Group and was present at the aforementioned meeting, fully shares my views.

Sincerely,

CYRUS VANCE.

The CHAIRMAN. The letter from the Chairman of the Joint Chiefs of Staff is dated April 26, 1967, and reads as follows:

DEAR MR. CHAIRMAN: You, today, asked that I furnish you with any information now available to me which gives evidence that the Export-Import Bank loan to Fiat of Italy for the purchase of U.S. machinery for reexport to the U.S.S.R. will induce the Soviet Union to devote greater resources to the production of consumer goods at the expense of applying those resources to military purposes.

I agree with the CIA evaluation that "announced plans are not so grandiose as to require a significant alteration in traditional Soviet economic priorities, and would leave military and space programs unimpaired." However, the assessment of the impact of substantial investments in consumer goods production upon the magnitude of military expenditures must, in general, embody a considerable element of judgment and reasoning. This is particularly true with respect to long-range future projects such as the Fiat plant.

I do not believe that the Soviets would divert resources from a military program which they regard as vital to any program to benefit the Soviet consumer. However, there is an order of priority and value among possible military expenditures, and under most circumstances total actual military expenditures will certainly be less than they would have been in the absence of competitive consumer demands. In other words, there are always certain military expenditures which the Soviets, in the light of the total resources available and the alternative uses for those resources, must regard as of lesser priority. The decision to undertake these programs, or the level at which to fund them, will be influenced by the magnitude of the total resources available and the commitment of the Soviet leaders to other programs, such as those for the production of consumer goods. The Fiat plant is an important part of a broader Soviet program to expand the U.S.S.R. automobile industry. That program will absorb a substantial amount of resources which will not be available for other uses, including lower priority military programs. This, in turn, should influence Soviet decisions with respect to military expenditures at the lower end of the priority spectrum, and thus induce them to devote grater resources to the production of consumer goods at the expenses of military programs.

The CHAIRMAN. It is signed by General Wheeler, Chairman.

First, we would like to have the statements from the witnesses, and after these witnesses—Mr. Leddy and Mr. McQuade, and Mr. McNaughton—after you gentlemen have finished your statements, then we will ask you to yield for questions.

Mr. McQuade, I believe you are prepared to present your statement first.

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STATEMENT OF HON. LAWRENCE C. McQUADE, ACTING ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, U.S. DEPARTMENT OF COMMERCE

Mr. McQUADE. Mr. Chairman and members of the committee, I should like to comment briefly on the Fiat-Soviet auto plant and its implications for the Department of Commerce in licensing exports from the United States for that plant pursuant to the Export Control Act.

In August 1966 officials of the Italian Fiat firm and of the Soviet Government signed a contract for the construction by Fiat of an automobile assembly plant in the U.S.S.R. at estimated total cost of $800 million.

Plans call for the regular production by this plant to commence in mid-1969 with full production capacity to be attained in 1974—of two small passenger cars of the Fiat line at a rate of 2,000 cars per day, or 600,000 cars annually.

By 1975 total Soviet production of automobiles may reach the level the United States achieved in 1917.

Purchases for the plant from outside the U.S.S.R. are estimated at between $300 and $400 million. To finance such purchases the Instituto Mobiliare Italiano (IMI), an Italian credit agency, granted the Soviet Union a credit of about $320 million.

Fiat's extensive experience with U.S. machinery for automotive production in its own plants has led it to prefer purchasing up to $50 million worth of machine tool equipment from American firms.

Fiat has provided a tentative list of such machine tools, but a detailed list will not be determined until plans for the plant progress further.

Additional earnings may accrue to U.S. firms from sales for this point by their oversea affiliates.

On October 7, 1966, President Johnson announced that the Export-Import Bank is prepared to finance American exports for this plant. Up to $50 million may be lent to IMI for such purchases by Fiat.

Now, as to the U.S. export licensing implications.

Because of our export control responsibilities, the Department of Commerce examined the U.S. equipment likely to be required for the Fiat-Soviet automobile plant before supporting Export-Import Bank financing of such equipment purchases. We concluded that most of the equipment, which has well-established uses in the production of light automobiles, would be approvable under the Export Control Act for export to the U.S.S.R. for this plant.

The Department will evaluate all export applications for this plant in the light of the following factors:

What are the alternative uses of the equipment, and are these of military significance?

Are the quantities and types of equipment requested normal for the job and for this proposed plant?

Is comparable equipment available abroad?

Does the equipment incorporate strategic technology that is extractable?

Would export approval of the equipment adversely affect production for the U.S. defense effort?

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Is the equipment ordered by Fiat from the United States an integral part of a large package and, therefore, unlikely to be used for any other purpose?

In weighing these factors against such equipment, the Department of Commerce will consult the Departments of Defense and State, as well as other interested agencies of our Government.

The Department of Commerce has received to date only four export license applications covering transactions that the applicants hoped to negotiate for this plant.

One application, involving technical data for painting automobiles by an electrocoating process, was later withdrawn by the applicant who said he lost the business to a European competitor.

Two applications, covering a process for producing window channels and weatherstripping for automobiles and an automated sand molding system for the production of automobile parts, were returned without action because validated licenses are not needed to export published technical data.

The other license has been issued authorizing the applicant to enter into negotiations for the sale of a cold strip reversing mill, which would be built in Italy; and, if a contract should be secured, to transmit technical data for the erection, maintenance, repair, and operation of the mill.

In concluding my comments, Mr. Chairman, I should like to refer to the letter on this subject which Acting Secretary of Commerce Trowbridge wrote to you on April 12. As he wrote:

> I am convinced that most, if not all, of the equipment that may be sought from the United States for this plant can be licensed pursuant to the Export Control Act for ultimate delivery to this U.S.S.R. plant without any risk to our national security and welfare. * * * It is also quite clear that with or without U.S. equipment or financing the U.S.S.R. can obtain this and other modern light automotive manufacturing plants from Italy and other Western European countries.

Secretary Trowbridge also pointed out that denying American firms the right to participate in this transaction will deprive U.S. business and labor of the benefits of such exports, and will hurt our country's balance of payments.

The CHAIRMAN. Thank you, sir.

Mr. Leddy, are you ready to proceed?

STATEMENT OF HON. JOHN M. LEDDY, ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS

Mr. LEDDY. Mr. Chairman, I am glad to be here on behalf of the State Department.

I would like to confine my opening remarks to the question of the proposed financing by the Export-Import Bank of a loan to an Italian bank for the purpose of financing the purchase of U.S. equipment for use in an auto plant being constructed in the Soviet Union by the Fiat Co. The Department has concluded that this loan would support our foreign policy objectives.

It is the policy of the United States to encourage trade in peaceful goods with the Soviet Union. The Fiat contract with the U.S.S.R. is fully consistent with this policy. It would commit the Soviet Union to a significant new and substantial investment in the production of

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consumer goods which could have dynamic implications for the future. The substantial increase proposed in passenger automotive production would inevitably require additional investment outlays for service stations, garages, roads, and other supporting civilian-type activities.

There is a great demand for and a great shortage of passenger automobiles in the Soviet Union; the waiting period for a new car is usually several years. The Soviet people know that this is not the situation in the free world. This pent-up demand in the U.S.S.R. for automobiles is symbolic of the pressures of the people on the Soviet leadership for higher standards of living. The decision of the Soviet Government to respond to this demand for more consumer goods is a hopeful sign. It is a decision which we should support and encourage in our efforts to promote the peaceful evolution of the Communist states of Eastern Europe.

A loan by the Export-Import Bank to finance purchases by Fiat in the United States would help our businessmen to make sales which they otherwise would be unable to make. This would result in a gain to our balance of payments, a factor which is of importance to our foreign policy as a whole. We need to recognize that the foreign competitors of U.S. businessmen in the automotive machine tool field can offer substantially similar equipment. They can also offer attractive government guaranteed credit to Fiat. If we cannot meet the competition, we will lose the business.

Mr. Chairman, the proposal for an Export-Import Bank loan to Italy in connection with the Fiat project has, as you know, been carefully and extensively examined in an excellent report prepared for the Subcommittee on International Trade of the Banking and Currency Committee. We fully concur with the favorable conclusion of that report.

Thank you.

The CHAIRMAN. Thank you, Mr. Leddy.

Mr. McNaughton?

STATEMENT OF HON. JOHN T. McNAUGHTON, ASSISTANT SECRETARY OF DEFENSE

Mr. MCNAUGHTON. Mr. Chairman and members of the committee, I am pleased to appear before your committee on behalf of the Department of Defense. I submit the following statement regarding the proposed Fiat automobile plant in the U.S.S.R. and the Export-Import Bank financing of the export of machinery from the United States for use in that plant, and I shall be happy to try to answer any further questions you may have.

The proposed Export-Import Bank loan to Fiat of up to $50 million for purchase of U.S. machinery for use in the Fiat-Soviet auto plant was fully discussed in the Senior Interdepartmental Group meeting on May 31, 1966. Deputy Secretary Vance and General Wheeler, Chairman of the Joint Chiefs of Staff, both of whom were present at this meeting, support the loan to Fiat.

The CHAIRMAN. You say the Senior Interdepartmental Group. Is that a group among your people sort of like the "Quadriad" among the Government agencies involved with bank supervision?

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Mr. McNAUGHTON. I am not familiar with the "Quadriad."

The Senior Interdepartmental Group, Mr. Chairman, is a group composed of several of the departments of Government: State, Defense, and I believe AID, the Chairman of the Joint Chiefs, and USIA.

The CHAIRMAN. You have regular meetings, do you?

Mr. McNAUGHTON. The group does, and I believe Mr. Katzenbach is the chairman of the group. Mr. Vance and General Wheeler appear.

The CHAIRMAN. Would that include agencies like AID and CIA?

Mr. McNAUGHTON. Yes; as regular members, and others are invited in when the issue pertains to them.

The CHAIRMAN. Thank you, sir.

Mr. McNAUGHTON. You have read the letters from Secretary Vance and General Wheeler which reflect their opinions on the subject. Secretary McNamara also approves of the loan and believes that projects such as the Fiat-Soviet plant are in the interest of the United States.

The Fiat-Soviet plant will not contribute significantly to the military potential of the Soviet Union. Plants of the Soviet defense industry are well equipped and, according to our intelligence people, have production capacity well in excess of current output. We have no evidence that the Soviets would find it necessary to divert the production capabilities of the Fiat plant to military purposes, or that they have a military requirement for the cars the plant will produce. Such a plant could not be readily converted to the production of military equipment. The machinery to be used in the plant is of a specialized kind employed in mass producing a compact car. It is unsuitable for use in connection with the heavy materials and fabrication that go into the manufacture of military equipment such as transport vehicles, tanks, or advanced weapons. Furthermore, diversion of machinery that might have universal application would disrupt plans for the automobile plant.

Particular U.S. exports for use in the plant will be subject to detailed review under the regulations controlling exports to the Soviet Union and in light of their possible strategic significance. If it is determined that an export would contribute significantly to the military or economic potential of the Soviet Union in a manner which would prove detrimental to the national security and welfare of the United States, it would be forbidden as required by the Export Control Act of 1949.

U.S. exports in connection with the Fiat-Soviet plant will be an important element in President Johnson's program of building bridges to Eastern Europe. It is our opinion that such bridge building serves our national security. The Export-Import Bank loan to Fiat would support the increased emphasis in the U.S.S.R. toward applying their resources to the production of consumer goods, and, by encouraging consumer demand, make it more likely that we can keep our competition with the U.S.S.R. peaceful competition. We hope that the Fiat project, and U.S. exports related to it, will strengthen recognition in the Soviet Union that there are advantages to peaceful commercial interchange with the West. In addition, it must be recognized that the U.S. exports will benefit our own industries and improve our international balance-of-payments position.

In summary, therefore, the Department of Defense believes that an Export-Import Bank loan to Fiat to finance U.S. exports to the

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Soviet Union would not be detrimental to our national security and that projects such as the Fiat-Soviet auto plant are in the interest of the United States.

Thank you, Mr. Chairman.

The CHAIRMAN. I would like to ask the witnesses some questions.

No. 1. It is a fact that Russia now is about where we were in 1917 in the production of cars. In other words, they are producing on the level that we were 50 years ago; is that approximately correct, Mr. McNaughton?

Mr. MCNAUGHTON. I believe that McQuade better take that.

My information, Mr. Chairman, is that they will be about there after they undertake this plant.

Mr. MCQUADE. That is correct.

The CHAIRMAN. On the argument that is being made that this would help Russia in furnishing military equipment to other countries, it occurs to me that this would be going in the opposite direction, just from the information that I have, that if they were to engage in the production of automobiles to the extent that they claim they desire to do so, that would take a lot out of their military expenditures and put it into consumer goods. Do you agree with that, Mr. McQuade?

Mr. MCQUADE. I believe the letter which you received from the Chairman of the Joint Chiefs of Staff made that very clear, just how this works. The magnitude of any diversion is difficult to assess, but I think that is excellently done in that letter.

The CHAIRMAN. If they were to seriously go into the production of automobiles like we were doing in 1917, they would first have to build roads. Their roads are not made for heavy traffic in automobiles now, are they?

Mr. MCQUADE. They are woefully lacking in that area.

The CHAIRMAN. Then, also, they do not really have any way of servicing the motor vehicles. They have very few filling stations in their whole country, is that right?

Mr. MCQUADE. I think the CIA report, which is included in your subcommittee's study, is particularly effective in describing this; yes, sir.

The CHAIRMAN. They do not have the roads, the highways; they do not have any way of servicing the automobiles; they do not have a large supply of mechanics; and they do not have any plans to train the mechanics.

It just occurs to me that if we wanted to help the Soviet Union in this way and help her consumers, why they would take the cost to that extent out of the military part of their expenditures. Those things will be explored, and I hope they are, during this discussion.

Mr. Widnall?

Mr. WIDNALL. Thank you, Mr. Chairman.

I want to thank you three for coming up today and giving us further testimony at these hearings, and I am sure it will prove very valuable.

I suggested at the initial meeting when Mr. Linder was here that in view of the questions that had been raised, particularly with respect to the Fiat transaction, I felt the hearings should be extended longer and the various departments heard from personally, so that we could have it as a matter of record before the committee, and I certainly appreciate your being here.

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Mr. McNaughton, can you tell us whether there were any adverse opinions stated at the senior interdepartmental meeting last May 31?

Mr. McNAUGHTON. I cannot answer that question. I do not have that information. The two parties for whom I speak here today supported the proposition, Mr. Widnall, both Mr. Vance and the Chairman of the Joint Chiefs, and I have no knowledge as to the other members.

Mr. WIDNALL. Could you give me any idea of how long a period they had to study the matter before their opinions were asked at the May 31 meeting?

Mr. McNAUGHTON. I could provide that for you, if you would like to have it. The administration had been aware of the proposal for at least 4 years before that meeting, and, of course, that meeting was almost a year ago today. This is not a new subject for the U.S. Government by any means.

Mr. WIDNALL. I understand that. I just would like to have the question before the Board.

Other than CIA, were there any other members of the so-called intelligence committee at that meeting?

Mr. McNAUGHTON. I would doubt it. I do not attend these meetings, Mr. Widnall. Generally speaking the rule is the principal attends by himself. There may be one exception in the case of the Chairman of the Joint Chiefs, but normally it is principals only. So, there probably was no other member of the intelligence community there other than the Director of the CIA. He would be the only one, so far as I know, that would be there. There may be an exception.

Mr. WIDNALL. To your knowledge, to the knowledge of any of you, did the President transmit the East-West trade bill to Congress as yet?

Mr. LEDDY. No, Mr. Chairman. I believe the situation is that it has not been transmitted. It is my understanding that the text of that legislation will be worked out by the House Ways and Means Committee.

Mr. WIDNALL. To your knowledge, has the President himself mentioned East-West trade or the Fiat proposal such as in his October 1966 speech in New York?

Mr. LEDDY. I do not recall his having mentioned the Fiat proposal specifically since his speech of October 7, 1966. He has, of course, referred to East-West trade subsequently. I do not have texts here now, but we can provide them.

Mr. WIDNALL. I would appreciate that.

(The excerpts referred to follow:)

In his state of the Union message to the Congress on January 10, 1967, the President said the following:

* * * * * * *

Our relations with the Soviet Union and Eastern Europe are also in transition. We have avoided both the acts and the rhetoric of the cold war. When we have differed with the Soviet Union, or other nations for that matter, I have tried to differ quietly and with courtesy and without venom.

Our objective is not to continue the cold war but to end it.

We have reached an agreement at the United Nations on the peaceful uses of outer space:[2]

We have agreed to open direct air flights with the Soviet Union.[3]

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[2] For background, see Bulletin of Dec. 26, 1966, p. 952, and Jan. 9, 1967, p. 78.
[3] For text of an agreement signed on Nov. 4, see *ibid.*, Nov. 21, 1966, p. 791.

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We have removed more than 400 nonstrategic items from export control.

We are determined that the Export-Import Bank can allow commercial credits to Poland, Hungary, Bulgaria, and Czechoslovakia, as well as to Romania and Yugoslavia.

We have entered into a cultural agreement with the Soviet Union for another 2 years.[4]

We have agreed with Bulgaria and Hungary to upgrade our legation to Embassies.

We have started discussions with international agencies on ways of increasing contacts with Eastern European countries.

This administration has taken these steps even as duty compelled us to fulfill and execute alliances and treaty obligations through out the world that were entered into before I became President.

So, tonight I now ask and urge this Congress to help our foreign and our commercial trade polices by passing an East-West trade bill and by approving our consular convention with the Soviet Union.

In his news conference of March 2, 1967, the President answered a question on East-West trade, as follows:

Question. Mr. President, do you see an interconnection between Senate passage of the Consular Treaty, the space treaty, East-West trade and a nonproliferation treaty? Do you see these as kind of one movement?

Answer. I think they are all very desirable moves in the national interest of the United States.

When I became President, one of the first steps I took in the first few weeks I was President was to communicate with Chairman Khrushchev and suggest that we explore together certain agreements that would be beneficial to both nations in promoting peace in the world.

Exchanges between our two countries resulted in: the signing of the Civil Air Agreement; the signing of the new cultural agreement; the signing of the consular agreement, which I devoutly hope will be ratified by the Senate, and about which I have had innumberable conversations with the leaders of this Congress of both parties; the progress that has been made in the nonproliferation agreement, although we have not come to a complete meeting of the minds with all of the individuals involved, we have made progress; the space agreement, which we hope the Senate will act favorably upon; the East-West trade, which is being considered.

We have recommended all of those. We hope that the Congress will confirm our judgment that they are in the best interests of the United States. They were not made as a package move. They were made as individual recommendations.

But I do think that what your question implies is: Does that reflect a policy on the part of this Government of attempting to find areas of agreement with the Soviet Union?

The answer is "Yes." We are exploring with every means at our command, every possible way of relieving tensions in the world and promoting peace in the world.

On March 25, 1967, the White House released to the press the following letter to the President of the U.S. Council of the International Chamber of Commerce:

THE WHITE HOUSE,
Washington, D.C., March 25, 1966.

MR. CHRISTOPHER H. PHILLIPS,
President,
U.S. Council of the International Chamber of Commerce, Inc.,
New York, N.Y.

DEAR MR. PHILLIPS: I very much appreciated your letter transmitting the Council's policy statement on East-West trade. I know that the conclusions and recommendations are the products of profound study. All Americans can take pride in the creative spirit in which you, Mr. Watson, Mr. Steele, and your associates have approached this important question.

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[4] For text of a joint communique, see *ibid.*, Apr. 4, 1966, p. 548.

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In my judgment, the statement is an eloquent expression of the case for giving the President the tools necessary to work for the improvement in East-West relations which is the best hope for a lasting peace. As you point out, increased peaceful trade with Eastern Europe and the Soviet Union will serve our broad political objectives as well as our economic interests. Peaceful economic competition builds a common stake in stability. The day that it replaces the arms race as the primary form of East-West rivalry will be a landmark in the history of man.

Of course, we shall have to feel our way carefully. The East-West trade legislation I have proposed was recommended by a distinguished group of businessmen, economists, and labor leaders; it is carefully designed to be used only when it is clear that our interests are served. It provides for trade, not aid. It does not affect the system of controls on the export of strategic goods. It does not lower our guard; it simply permits us to grant the same tariff treatment to the Soviet Union and Eastern Europe which we grant all other nations if, and to the degree that, it will further our interests.

The issue reduces to a simple question: should we be prepared to do our part to bridge the chasm between East and West which has so long threatened the peace of the world? Trade alone will not be sufficient to this task. But it will certainly be necessary. I believe, as you do, that we must be ready to respond as opportunities arise. The East-West Trade Act which I have proposed to the Congress would equip us to do so.

The policy statement of the U.S. Council of the International Chamber of Commerce is further powerful testimony to the wisdom of this course. Your countrymen are deeply in your debt.

My best personal regards to you and your fellow Council members.

Sincerely,

LYNDON B. JOHNSON.

Mr. WIDNALL. With the exception of the 1963 wheat deal with the U.S.S.R., which did not involve U.S. credits, the Fiat deal is by far the largest East-West trade measure ever undertaken; is that not so?

Mr. LEDDY. You mean ever undertaken between a country of Eastern Europe and a country of Western Europe?

Mr. WIDNALL. That is right.

Mr. LEDDY. I do not know specifically, sir, but this is a very large transaction and it may very well be the largest single transaction involving East-West relations.

Mr. WIDNALL. I am very interested in going a little bit beyond the bill, because of the testimony of Mr. Linder himself, as to his own personal feelings, with respect to the development of the East-West trade. I would like to know if there has been any administration position taken as yet on the Soviet's expressed interest in bidding on Grand Coulee Dam turbines?

Mr. MCNAUGHTON. I am unable to answer that question.

Mr. MCQUADE. I am certain it has not yet been taken.

Mr. WIDNALL. In the testimony that was given by Mr. McQuade, he states:

We concluded that most of the equipment, which has well-established uses in the production of light automobiles, would be approvable under the Export Control Act for export to the U.S.S.R. for this plant. However, some of the equipment can also be used for strategic purposes and export approval would be less likely.

It does not say that it would be stopped.

I see certain factors mentioned in weighing the decisions that will be made in evaluating the export applications.

Could you tell me what parts of the equipment are considered right now to be for a strategic purpose or in a questionable category? What percentage?

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Mr. McQuade. I am not sure that we could give you that very precisely, Mr. Widnall. Our problem is that we have a tentative list, and, second, we can see by scanning that list that there are some segments of it which might involve some technology which would be of concern to us, and we have made a judgment which you have here that where a piece of equipment or part of a piece of equipment might also be used in some other purpose, that we would need the extra scrutiny and care which I tried to identify in the list of factors, and until we get specific applications I am not sure we could pinpoint those. And, as I say, we have had a preliminary look which persuades us that the bulk of these things would not be troublesome. I just wanted to make sure to you that we recognize some of these may be troublesome.

Mr. Widnall. My time has expired.

I would like to make this comment before closing.

I do not think that it is particularly relevant to compare their car production—our car production in 1917 to what they will have.

The point at issue is whether or not any of these materials are interchangeable for war purposes within the Soviet or whether or not it would aid them in meeting their strategic demands. This is what we are trying to get at, of course.

The Chairman. Mr. Reuss?

Mr. Reuss. Thank you, Mr. Chairman.

Let me inquire about the balance-of-payments impact proposed by the Fiat transaction, if it goes through.

Is my analysis right, that initially there would be a wash item, in that we would lend $50 million, a debit, but we would also export $50 million of machine tools, a credit, and then over a 5-year period as the loan would be repaid, those repayments of both principal and interest would be a credit, an affirmative item on our balance of payments, and we would end up in a 5-year period with $50 million, plus interest paid?

Mr. McQuade. That is right.

Mr. Reuss. To our credit. And, therefore, the balance-of-payment aspects are highly favorable, in that they involve no additions to our deficit of any kind, but an increment to our plus items over the next 5 years.

Mr. McQuade. Yes, sir; that is a good description.

Mr. Reuss. That seems to me a point worth considering.

The other party to the bookkeeping transaction would be Italy rather than the Soviet Union?

Mr. McQuade. Yes, sir.

The Chairman. Mr. Fino?

Mr. Fino. Thank you, Mr. Chairman.

Mr. Chairman, 2 weeks ago when these hearings started, there were loud denials in this room that this bill had anything to do with East-West trade. The testimony here this morning is, it is obvious from this, that the Bank has been used and will continue to be used and is being used as a vehicle of financing expansion of the Soviet bloc.

Both of you gentlemen, Mr. McNaughton and Mr. McQuade, in your windup of your statements here this morning waved the American flag about denying firms the right to participate in transactions which will deprive business and labor of the benefits of such exports.

I just want to bring to your attention, in case you do not know,

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yesterday, George Meany, who is the president of the AFL–CIO, had a luncheon at the Commodore Hotel, and said:

> Labor did not favor East-West trade that would appease Communist countries. The Communist system after 50 years has failed, and this country should not bail them out.

Mr. Leddy, you are familiar with the Soviet-Persian oil arrangements; are you not?

Mr. LEDDY. I am acquainted with certain aspects of them, yes.

Mr. FINO. Let me ask you: Is it not true that our State Department has approved proposals of U.S. oil companies in Iran to participate in Iran-United States oil group sales to the Soviet bloc?

What safeguards are there against transshipment of this oil to North Vietnam?

Mr. LEDDY. Mr. Fino, the State Department has not encouraged a consortium to sell Iranian oil to the Soviet Union.

To my knowledge, the consortium has not yet taken a decision on that, but I would point out that the Soviet Union is probably the second largest producer of oil in the world and a substantial exporter of oil, so I do not see how this would really affect their capacity to supply North Vietnam.

Mr. FINO. Would you disagree with me, that according to reports that I have heard from time to time, that the Soviet Union is supplying about 80 percent of the weapons and the military equipment to North Vietnam?

Mr. LEDDY. Mr. Fino, I would have to check the figures on that. There is no question but that they are supplying military equipment to North Vietnam. I think Mr. McNaughton knows more about that than I do.

My understanding is that the Chinese Communists are supplying most of the equipment for the forces in the field and that the Soviet are supplying some rather sophisticated equipment in the field of anti-aircraft defense.

Mr. MCNAUGHTON. I think that is correct, Mr. Fino.

Mr. FINO. I understand from the October 10, 1966, issue of the Journal of Commerce, that the Department of Defense compelled a Detroit engine manufacturer to cancel orders from a Soviet satellite auto plant for truck engines. How can the Department of Defense approve the Fiat proposition in line with this?

Do you think we ought to help build auto plants for the Soviets?

Mr. MCNAUGHTON. I am not familiar with the case that you cite.

I thought I had made myself clear that we do favor assisting the diversion of whatever resources we can from military purposes to such things as small automobiles.

You see, our interest, Mr. Fino, is very simple in this regard: It is to enhance the security of the United States, and there are three aspects that are involved in this case. One of them is to do what we can, along the lines that Mr. Leddy mentioned, to change the nature of the Soviet—to change him from what he is to something more consumer- and self-oriented. The second is to behave in such a way in our dealings with them as to minimize misunderstandings and we consider that trade in civilian goods serve this purpose. In a sense, this is the bridge-building. And, third, to divert as many resources as possible so they will not have as much left to send to North Vietnam

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or will not have as much left to cause trouble in Eastern Europe—these are three principles, all of which are helped by this deal, Mr. Fino.

Mr. FINO. We are showing great concern for the Soviet bloc, more particularly the Soviet Union, and I am just wondering whether we are just to repeat history, because back in the late 1930's we were trying to be helpful to Japan and tried to build up their economy, tried to build up our own economy, exports and so forth, and we found out that a lot of New York City Third Avenue elevated tracks wound up in Japan to be melted down to make weapons and war materiel which was used against our boys.

Mr. MCNAUGHTON. I think you should realize that in the first place, this equipment, the vast bulk of it, as Mr. McQuade pointed out, is specialized equipment that is very, very difficult, if possible at all, to divert for such purposes, and the second thing is the Commerce Department, with the assistance of the State Department and others, will look at every single item that comes up under this deal. So, this is not a case of our trying to help the Soviet Union. This is a case of our trying to help the United States.

Mr. FINO. When you are permitting the building of a plant in Russia, what is there to prevent the conversion of that plant into one for production of military vehicles?

Mr. MCNAUGHTON. Our experts tell us that is not going to be done; and, furthermore, they have excess capacity elsewhere, anyhow.

Mr. FINO. I am told my time is up. I will get back to you fellows later.

The CHAIRMAN. Mr. Ashley?

Mr. ASHLEY. Mr. McNaughton, you referred to the Intergovernmental Group, the Senior Intergovernmental Group, which met and had discussion with respect to the proposed transaction.

Was there any dissenting voice heard at the time of that meeting in May of last year when this matter was considered?

Mr. MCNAUGHTON. I said earlier, I am sorry. I do not have that information. I am sure that the State Department, which is a member of the Group—In fact, the Chairman of the Group is Mr. Katzenbach—did not dissent. I am sure Defense and the Chairman of the Joint Chiefs did not dissent. I believe there are only two other members—CIA and USIA. I can't answer for them.

Mr. ASHLEY. Can we get that information?

Mr. MCNAUGHTON. I will ask if we can provide such information on that. I will take the request back.

You see, you do have a channel to find out what those departments think—the USIA, AID, and CIA—although there is some question as to how CIA's opinions on such matters should be dealt with. But we will do the best we can.

Mr. ASHLEY. Thank you. That is all I have.

The CHAIRMAN. Mrs. Dwyer?

Mrs. DWYER. No questions.

The CHAIRMAN. Mr. Moorhead?

Mr. MOORHEAD. Thank you, Mr. Chairman.

Gentlemen, I would like to ask if you agree with me that the practical machinery for deciding whether or not this Fiat deal is in the strategic interest of the United States is provided for by the Export Control Act of 1949?

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Mr. McQUADE. I take your question is whether we agree this is within the interests of the United States?

Mr. MOORHEAD. Within the strategic interests?

Mr. McQUADE. Well, the answer is that each time we issue a license we must make that determination, and no licenses would be issued unless we were prepared to make that judgment.

Mr. MOORHEAD. Mr. McNaughton, as a lawyer and law professor, would you agree with me that if Congress wanted to change the ground rules for exports, for instance, make them more restrictive in our relations with Russia, that the legislation we should address ourselves to is the Export Control Act rather than the legislation creating or extending the Export-Import Bank?

Mr. McNAUGHTON. I hesitate to make a judgment on how Congress should deal with that. I do have the Export Control Act of 1949 right here, and it certainly deals headon with this issue. Therefore, it seems it would be apropriate to make any desired changes by amending that act. I can't go further than that.

Mr. MOORHEAD. If a particular transaction was not in the strategic interests of the United States, would it not be against our interests whether or not we used the Eximbank?

Mr. McNAUGHTON. That is correct. And you notice the language I used in my statement was paraphrased directly from the Export Control Act of 1949, which deals specifically with this type of problem without regard to the source of the sale or its financing.

Mr. MOORHEAD. Under the machinery of the Export Control Act, when, let us say, a doubtful item is involved, is it not true that the military, the intelligence would have the primary voice in determining our strategic interests?

Mr. McNAUGHTON. This is correct. You have heard Mr. McQuade assure you that items under this deal would be dealt with in such a way that DOD would be queried on each item.

Mr. MOORHEAD. And then the next item that would be considered is whether it would be in our political or international relations' advantage, and the Department of State has presumably reached the conclusion that building bridges to the East is in our political advantage?

Mr. LEDDY. Yes, sir, we have.

Mr. MOORHEAD. Finally, as I understand it, the Department of Commerce would determine whether this is in our economic interest, whether it is for the benefit of American business and American labor; is that correct, Mr. McQuade?

Mr. McQUADE. That is correct.

Mr. MOORHEAD. And, then, only after all of these decisions have been made favorably, which would be apart from your decision, is the question of financing by the Eximbank; is that correct?

Mr. McQUADE. That is correct.

Mr. MOORHEAD. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Halpern?

Mr. HALPERN. Thank you, Mr. Chairman.

First, I would like to welcome Mr. Leddy to this committee. He has been a valuable public officer and has been doing a most creditable job for our country.

Spokesmen in support of the Export-Import Bank's credit to Fiat argue that this Soviet investment in automobiles reflects the fact that

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Moscow is being pressured into meeting consumer demands and that they should encourage them. And yet the CIA report which was appended to our subcommittee report stressed that these automobiles were intended only for the upper echelons of the Government, for the party bureaucrats, technocrats and Kremlin elite.

Can you really argue that meeting the consumer demands of a party elite and not the Russian citizenry at large is beneficial?

Mr. LEDDY. Yes, I would think so, Mr. Halpern.

I think the fact of the matter is that the Soviet economy is an economy which is consistently and persistently under strain and that even though these managers are the elite, this is a part of the consumer demand. I think one of the important factors here, which ought to be considered, is that while it is perfectly true that when you take the magnitude of this investment which is probably, overall, something less than $2 billion—the automobile investment plus the secondary effects—it is relatively small in terms of the total GNP of the Soviet economy, which is less than half of ours. Nevertheless, there is a dynamic built into this automobile situation. I am reasonably confident that there will be increased appetite for this kind of thing in other sectors in the Soviet Union, and I have no doubt the Soviet leaders debated rather carefully whether or not it would lead to an increased pressure of demand. I assume that they concluded it would but that they would probably be able to restrain it.

But our view about this, of course, is a little different from theirs. We are betting on the liberalizing forces; we are betting that the highly centralized Soviet economic system will eventually change under these pressures. This is what we are trying to encourage.

So, I would say that even though these automobiles, most of them, will be reserved in the first instance for the elite and the managerial class, they will create in the wider population aspirations that will add to the pressures in the Soviet economic decision making process.

Mr. HALPERN. To elaborate a little further on this question, some people attest that this plant of $1.2 billion in automobiles is an important shift from heavy industry to the consumer sector. Will you assess that for us?

Mr. LEDDY. I think that was the point that the Chairman of the Joint Chiefs made and that was also brought out in the CIA report. The point is, that while the total amount is relatively modest, even with the proposed expansion, the overall pressures on the Soviet economy are such that such additional consumer goods production will result in less being available for further expansion in the military and space sectors.

This would be, it seems to me, the only logical judgment that we can come to, given the very taut Soviet economy.

Mr. HALPERN. Mr. McQuade, to clarify the question of the gentleman from Pennsylvania regarding these strategic lists, I understand that almost all of the tools and the machinery which Fiat contemplates buying from American firms are not on the strategic list, and so would only require a licensing; is that correct?

Mr. MCQUADE. That is correct.

Mr. HALPERN. The Fiat report of the International Trade Subcommittee does refer to several items which do require clearance. These

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apparently were listed in a letter from Fiat dated February 1, 1967. This appears on page 7 of the subcommittee report.

Has your Department had a chance to review or evaluate these items and is your Department and the Export Control Office disposed toward clearing these items, and does CoCom, as a whole, have to approve this? Or what is the procedure?

Mr. McQuade. First, as to what we have done: We have really reviewed the list available to see what the problems might be without making definitive determinations. We have come to the judgment which I have outlined to you and which is outlined in this report.

Second, before any of these items can be or will be licensed, they must go through our regular licensing procedure to be eligible under the U.S. controls.

Third, to the extent that any of these items turn out to be on the CoCom list, it would be necessary to get an exception which must be approved unanimously by the other members of CoCom before we could shift it forward under our own licensing procedures.

Mr. Halpern. My time is up; I do have some other questions.

The Chairman. We will get back to you, I'm sure, Mr. Halpern. Mr. Minish?

Mr. Minish. Mr. McQuade, in your testimony did you make reference to a steel mill?

Mr. McQuade. I did. This is a hunting license. We have authorized a company to try to—let me get the exact words here, if I may—to try to sell a cold strip reversing mill which would be built in Italy. It is my understanding, from talking with people who have looked at this with some care, that the kinds of things that can be made by that mill are the kind which are directly related to the sort of things which the making of small automobiles requires. And this fits within the criteria which I tried to suggest, that if they are going to have such a plant, they must have such a mill in order to function.

Mr. Minish. Do you feel that this plant could be converted to the manufacturing of war materiel?

Mr. McQuade. Probably one of those categories where it could—it is impossible to say that it could not be diverted to war production. But if the end use is to be achieved it would be necessary to have such a mill, and we are confident that mills can be built by our European people and it would be obtained abroad if our particular businessman does not succeed in getting the job. I might say that the kind of things that it produces are really of low order, as I understand it, a sort of low order of achievement in this particular area, not the kind of things that you would use for complicated aerospace activities.

Mr. Minish. Mr. McNaughton, in your testimony you say that we have no evidence that the Soviets would find it necessary to divert the production capabilities of the Fiat plant to military purposes, and then you make reference to the matter of their producing compact cars; is that right?

Mr. McNaughton. What was the final sentence?

Mr. Minish. The Fiat is a compact car.

Mr. McNaughton. As I understand it; yes, sir.

Mr. Minish. Would they not be capable of turning that to manufacturing jeeps, for example?

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Mr. McNAUGHTON. The estimate is that it would not be easily divertible and, in addition, as I pointed out before, they have excess capacity elsewhere for military equipment. Jeeps may be different, but we encounter difficulty whenever we want to convert to manufacturing something substantially different, heavier gage, more rugged. It is clear that these items of machinery would not be suitable to produce, say, trucks and probably not jeeps. This is part of the estimate that was made when the decision, favorable decision, was made on the proposal by the senior interdepartmental group. So, all of these considerations have to be taken into account. No question about that.

Mr. MINISH. They would be able to manufacture jeeps?

Mr. McNAUGHTON. I did not say they would be. It may end up that the question is something like: Do they operate the way the French did in 1918, using taxis to get their forces into the field? Well, if a question is put—why, obviously, they can use the Fiat 124S to load soldiers in and race them somewhere. But this is not military equipment. It is not even suboptimum. It is considered considerably less than that.

Mr. MINISH. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Clawson?

Mr. CLAWSON. Thank you, Mr. Chairman.

Mr. Leddy, I believe in response to an earlier question in connection with the oil controlled by the Iranian consortium, you indicated that Russia was now the second largest producer of oil.

My question is this: I understand that Russia and Iran signed an agreement on April 15 whereby Iran and Russia were to develop Iran's oil reserves and Russia is going to provide Iran with whatever needs they have, militarily and otherwise.

Does this not give Russia at least an area of control over the European supply of oil which largely may come from Iran?

Mr. LEDDY. I believe the Soviet-Iran agreement does not involve oil. There is an agreement between Iran and the U.S.S.R. under which Iran will supply the Soviet Union with natural gas in return for goods which the Soviet Union will send to Iran.

Mr. CLAWSON. I have information that indicates there is this agreement as far as the natural gas is concerned. They will provide that; and, according to the information provided to me, there is also an agreement which was signed on April 15 for a joint venture in development of oil resources.

Mr. LEDDY. Yes, sir, I think there may be. I will try to make this clear in a subsequent piece of paper. I think the arrangement you might be referring to is that the Iranian Consortium is providing oil to the Iranian Oil Co. which would use it in barter trade with Hungary, Czechoslovakia, Poland, Rumania, and Bulgaria.

Mr. CLAWSON. You will check this out for us?

Mr. LEDDY. Yes, we will get that information for you.

Mr. CLAWSON. Thank you very much.

(The information requested follows:)

The Iranian-Soviet communique issued on April 15 following the visit of So
Planning Chief K. N. Baybakov placed particular stress on increasing deli
of Iranian natural gas, which is to be bartered for Soviet industrial
addition, the communique mentioned the sale of Iranian oil to the U
is also worth noting, however, that thus far the possibility of sales
oil to the U.S.S.R. has only been mentioned in the communique. As far
aware, no formal agreement has been concluded on this subject.

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The Soviet-Iranian communique also mentioned joint Soviet-Iranian oil exploration in the "free areas" of Iran. The term "free areas" presumably refers to those parts of Iran which are outside existing concession areas. Since both countries have cooperated in a geophysical survey of possible offshore oil resources in the Caspian Sea, any oil discovered in this area might be sold to the U.S.S.R. In view of the fact that Iranian oil exported to Western Europe comes exclusively from the concession areas worked by the consortium, or by partners of the NIOC in offshore concession areas in the Persian Gulf, Soviet-Iranian cooperation in developing Iranian oil production should have no effect on the availability of Iranian oil for Western Europe.

The April 15 communique also discussed in general terms the types of projects which the U.S.S.R. may undertake in Iran during that country's fourth development plan. Additional negotiations will apparently be required before specific agreements can be reached on any of these projects, other than those such as the steel mill, already included in the fourth plan.

Under an agreement signed in December 1966 between the Iranian Consortium and the National Iranian Oil Co. (NIOC), the consortium agreed to provide oil to the NIOC in lieu of its regular royalty payments if the NIOC requested it. By the terms of the agreement, the NIOC can use this oil only in trade with Poland, Hungary, Romania, and Bulgaria. Aside from a possible deal with Romania to barter oil for tractors, and other goods, there have been no reports thus far that the NIOC has actually used its option to take oil in lieu of cash payments for trade with the four specified Eastern European countries.

As was noted above, the April 15 Iranian-Soviet communique stressed the importance of the sale of Iranian natural gas to the U.S.S.R. This trade is based on an agreement which was signed in Tehran in October 1965 whereby Iranian natural gas is to be bartered for Soviet industrial equipment. In particular, the U.S.S.R. agreed to take natural gas in payment for a steel mill with an annual capacity of 600,000 tons which is to be constructed near Isfahan. The Iranian Government has assumed the responsibility for building the necessary gas pipeline from the southern part of the country to the Soviet frontier, with Soviet assistance for the northern part of the line. This deal involves only natural gas, and not oil. From the Iranian point of view, the possibility of bartering natural gas for industrial equipment is particularly attractive since the natural gas in question is produced as a by-product in oil operations and is currently being flared.

Mr. CLAWSON. I have also been informed that in 1963 export licenses for automotive machinery tools were denied on the basis that they were possibly strategic material, strategic militarily. These were automotive machine tools.

Would you comment on what changes have taken place since 1963 that might now present a different picture?

Mr. MCNAUGHTON. Are you addressing me?

Mr. CLAWSON. Anyone.

Mr. MCNAUGHTON. I would be glad to supply for the record an answer to that question.

I do not have information on the past treatment.

But, Mr. McQuade, do you have information?

Mr. MCQUADE. Not on that deal.

Mr. MCNAUGHTON. I will be glad to provide information on the subject.

Mr. CLAWSON. This is what the Export Control——

Mr. MCNAUGHTON. You said there were military objections to it?

Mr. CLAWSON. They indicated that these automatic machine tools were strategic militarily. I would like to know what changes have been made to reverse that decision of 1963.

Mr. MCNAUGHTON. I will look into it. We will provide this for the record.

(The information referred to follows:)

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In August 1962 the Department of Commerce denied export license applications for machine tools valued at about $43 million for the U.S.S.R. and Czechoslovakia. The denial was based primarily on three factors: (1) these tools would have contributed significantly to the automotive production capacity of the bloc at a time when tension between the United States and the U.S.S.R. was still high over Berlin and Cuba; (2) these tools were a conglomorate of machines to build automotive components for vehicles of unknown specifications, which could have included trucks and other types having potential military-industrial uses; and (3) while foreign comparability existed for the tools, it was our understanding that in 1962 European toolbuilders would not have been able to supply more than a few items in the near future to the bloc.

This situation does not prevail today. It is our understanding that foreign toolmakers would be able to supply the machine tools needed for the Fiat plant. In addition, unlike the situation in 1962, we know that the machine tools whose export we are being asked to consider, are for a specific plant to build small Fiat cars of a clearly civilian character.

Mr. CLAWSON. I have no further questions.

The CHAIRMAN. Mr. Gettys?

Mr. GETTYS. Thank you, Mr. Chairman.

Gentlemen, the question I have is outside the military and defense implications.

I would like to direct this question to State and Commerce.

After World War II, American money, know-how, tools, and equipment assisted greatly in building up the Japanese textile industry, and today it is the policy that we have cheap Japanese textile imports and they are putting thousands of Americans in the South and elsewhere out of jobs.

Now, what is the long-range effect on the domestic automobile industry of the United States going to be as a result of this attempt to build up foreign markets and manufacturing this particular product of automobiles. Will it be that one day we are going to find ourselves, the automobile industry in the United States, in the position the textile industry is today, that we have used so much of the taxpayers' money and know-how of America to build up foreign manufacturing ability that we cannot compete, and our own people are going to be without jobs?

Mr. MCQUADE. There are two observations I would like to make about that.

The first is: It has been our experience that as other nations get to be much stronger economically that they become markedly better markets for the United States. Japan, if you will look at it in total, is a very good case of this. They have grown in their gross national product and have improved, and they certainly have become one of our best markets.

With respect to the particular competitive impact on U.S. automobile companies of this proposed plant, I believe it is quite clear from the judgments in the CIA report included in your committee documents, that the risk over at least the next decade or two of having a large competitive impact is very low indeed.

Mr. GETTYS. I notice in your statement it would be 1975 before the Soviet Union would be producing as many automobiles as we did in 1917.

Mr. MCQUADE. That is right. So, I would not think that this particular transaction would offer the same kind of troubles that you point out in the textile field.

Mr. GETTYS. But it is that the subject, the point—I know it is far

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reaching—but is this question I raise being given consideration by Commerce and by State?

I am getting sort of disturbed about everybody in our State Department, everybody in our Commerce Department is worrying about what Africa thinks of us, what India thinks of us, and about what the Soviet Union thinks of us. I am concerned about what South Carolinians think about the United States. I am concerned about what Californians think of us. I am concerned about what Americans think of the United States, and when the interests of the Africans and the Soviets conflict with the interests of the United States, I think it is time for us to get up on our hind legs and say we are going to do it this way in the interest of America, and I am afraid we are overlooking that too often. I think it is a serious question, and I wonder if it is being given consideration in your thinking.

Mr. McQuade. I think the data in this report makes it evident that we have looked at this question with some care.

The Chairman. Mr. Lloyd?

Mr. Lloyd?

Mr. Lloyd. Thank you, Mr. Chairman. I have no questions.

The Chairman. Mr. Rees?

Mr. Rees. Mr. McQuade, I suspect you are probably very familiar with the Fiat proposal, because you are looking at it in terms of commerce. If we decided to amend the bill so as to not allow the type of transaction being proposed by Fiat and IMI, would Fiat be able to build their plant in the Soviet Union without the use of American machine tools?

Mr. McQuade. I think it is pretty clear they would.

Mr. Rees. You do not think that it would delay the construction of the plant?

Mr. McQuade. I rather doubt it. I consider it a tribute to American industry and their success that the Italians would like to use our equipment, but they could get it elsewhere in Europe.

Mr. Rees. Thank you.

The Chairman. Mr. Blackburn.

Mr. Blackburn. Mr. Leddy, as I understand, one of the purposes of building the bridges is to display to the Soviet Union that we are trying to establish a friendship with them; is that right?

Mr. Leddy. I thought there might be a question of this general broad character raised, and I prepared a few notes, first, on why we are engaged in bridge building at all in the Soviet Union and Eastern European countries and, second, on why we are doing it when we are defending South Vietnam against the north and the Soviets are helping them.

I would like to speak to this question, if that is all right with you.

Mr. Blackburn. If he is going to take up 5 minutes, I will have to object.

As I understand from the statements of the other two gentlemen here, if this transaction goes through, we will probably wreck the Soviet economy because they are going to have to start building all these highways, commissars are going to start burning themselves on the streets if they do not get new automobiles and this sort of thing.

I wonder: Are we getting any concessions out of the Soviet Union other than the prospect of wrecking their economy?

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Mr. LEDDY. As far as I can tell, we are not getting any specific concessions. This is an arrangement with an Italian Government corporation. I think we have shown that this is beneficial to the United States in the economic sense, in terms both of our exports and of our balance of payments.

In other words, we think the transaction stands on its own feet and is economically beneficial to us. And it has these broader aspects to which you have referred.

Mr. BLACKBURN. Is not the principal reason the Soviet Union wants this equipment or that the Fiat factory wants to get this equipment from the United States because they get it cheaper or they get better equipment for the same price?

Mr. LEDDY. I would think so, yes, sir.

Mr. BLACKBURN. So, this is beneficial to the Soviet Union, because they get the equipment, do they not?

Mr. LEDDY. I would not say this is not beneficial to the Soviet Union. The Soviets will not enter into transactions that they do not think are beneficial to them.

Mr. BLACKBURN. So, the net result to the Soviet economy is going to be to have a broader capital base, is it not?

Mr. LEDDY. I trust the net result will be the diversion of resources to consumers, which we think desirable for political reasons in the long run.

Mr. BLACKBURN. Of course, the ability of a nation to wage war or carry on foreign operations is directly proportionate to the ability to provide domestic needs and have a surplus left over for war purposes; is that not true?

Mr. LEDDY. Well, I do not know whether Mr. McNaughton wants to comment on this.

I think the economic situation in the Soviet Union today is that they have devoted a very large proportion of their resources to military expenditures and space, out of an economy, as I say, which is less than half the size of ours. They, nevertheless, have what is a very respectable military system.

I think the fact of the matter is that there are pressures within the Soviet Union, that the Soviet leaders are under pressure all the time from their people to give them more to eat, better living standards, and that sort of thing.

Now, this transaction moves in that direction, and inevitably it impinges somewhat on their capacity to increase or maintain a high rate of military expenditures. I think this is the logic of the situation.

Mr. BLACKBURN. If that logic holds true, this country should not be able to build a firecracker because we have the biggest automobile industry in the world. We provide for our defense. Our ability to provide for military systems is because we have a large economic base.

Mr. LEDDY. Our market economy is so much more efficient than their economy under the communal that the Soviets have applied, and so their system is meeting failures.

Mr. BLACKBURN. My time has expired.

Mr. LEDDY. We are simply more efficient, overall.

The CHAIRMAN. I assume it will be all right for the [illegible] extend his remarks in the record, and place in the record [illegible] he has in mind?

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Mr. Bingham?

Mr. BINGHAM. Thank you, Mr. Chairman. I had in mind some specific questions; but I would, at this time, like to have my time utilized so Mr. Leddy could give us some of the comments he had prepared on the general subject of bridgebuilding.

Mr. LEDDY. Well, with your permission, Mr. Chairman.

Mr. BINGHAM. It is my time, Mr. Leddy.

The CHAIRMAN. You may proceed, Mr. Leddy.

Mr. LEDDY. Two central questions which are being raised in these hearings are:

(1) Why does the United States favor "bridgebuilding" with the Soviet Union and Eastern Europe at all; and

(2) Why, especially, do we favor it even as we are defending South Vietnam from the north, which is being aided by supplies of Soviet military equipment?

I would like to address these two questions in turn. But first I would like to point out that "bridgebuilding" is only one aspect of our policy toward the Soviets, Eastern Europe and communism.

The other aspect is that we, together with our allies, remain determined to resist Communist aggression and to maintain the cohesion and strength of the West. We have not forgotten Greece, Korea, Berlin, and Cuba, among other confrontations, and Vietnam is still with us.

We are under no illusion that "detente," as it is called has already arrived; or that there is no longer a Communist threat; or that the West can now safely relax and let down its defenses.

We are under no illusion that the Soviet Union, despite its policy of "peaceful coexistence" has fundamentally altered its long-term objective of further communism as the only ultimately acceptable social system throughout the world.

We are under no illusions that the Soviet Union will refrain from pressing its own advantage wherever it can; that it is about to embrace the concept of common interest arrived at through free discussion and common consent which characterizes the democracies of the West.

So that we view this question of bridgebuilding with our eyes open. This can be no secret to the leaders of communism. It should not be a secret to our own people.

Within this general framework of our assessment of those on the other side of the river the case for bridgebuilding rests, in our view, on three basic considerations:

First, the nuclear age means that a major war between nuclear powers could mean mutual suicide. This is a new fact. It poses geometrically multiplied dangers. It also imposes new responsibilities and new restraints on nuclear powers. The implications of this fact, like the rain, fall on the just and the unjust alike. It means that unbridled hostility across the board between East and West carries with it an intensified danger of holocaust, not merely war; and both sides know it.

Second, internal changes have been taking place to varying degrees within the Soviet Union and the Eastern countries—changes which are favorable to our interests as we see them. These changes consist, essentially, in a lightening of the more repressive aspects of the Communist state and in moves away from the highly centralized and highly

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doctrinaire Communist economic ideology and toward more decentralized and more pragmatic economic programs which in many cases imitate some aspects of the market economies of the West. In the long run this evolution, if it continues, could have profound political consequences.

These internal changes in Communist society—which are even striking in some of the Communist countries such as Yugoslavia—appear to stem from the economic and social failures of rigidly applied Communist doctrine and from the contrasting success of the Western countries in achieving remarkable progress for their people under conditions of economic freedom.

Mr. BINGHAM. My time is now up. Perhaps, you had better defer the rest of it.

Mr. REES. I did not use 4 minutes of my 5 minutes.

The CHAIRMAN. Will the gentleman withhold his request until the other members have had an opportunity to question the witness, please?

Then, we will have Mr. Brown.

Mr. BROWN. I yield my time to Mr. Leddy.

The CHAIRMAN. He gives his time to Mr. Leddy, also.

Without objection, it is so ordered.

Mr. LEDDY. I will not be much longer.

Third, a remarkable shift has taken place in relations among the Eastern countries and the Soviet Union. The reemergence of nationalism in the Eastern countries and the desire to modify Communist economic precepts, drastically if necessary, in order to meet the realities of their own national needs has brought about what amounts to a fracturing of the Soviet bloc as it was known up to a few years ago. They remain Communist and, except for Yugoslavia, remain associated with the Soviet Union. But they are no longer "satellites" in the old sense and there are increasing tendencies toward independence in foreign as well as domestic affairs.

Our bridgebuilding policy is therefore intended to be responsive to these new facts and forces in our relations with the Soviet Union and the Eastern Communist states:

It is intended to lessen the dangers of war by removing needless irritants and misunderstandings in ways which do not compromise American and Western security.

It is intended to encourage constructive economic and social changes within the Communist states which lead toward more open societies susceptible to the influence of the example of the Western democracies.

It is intended to encourage the Eastern European countries to direct more attention to achieving national economic and social progress instead of spending their energies in promoting the sterile and aggressive international Communist movement.

The steps we can take under our bridgebuilding policy are not dramatic nor productive of quick solutions. They are indeed modest efforts in the field of trade, cultural and scientific exchanges, tourism and the like. But their cumulative effect is important.

One such step of significance is, of course, the credit arrangements now under consideration for the Fiat plant.

The second central question I mentioned: Why do we build even while Vietnam goes on?

The answers, I suggest, are two:

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Because this program is in our overall national interest in the long term, for the reasons I have cited. If this is so, we should not be deflected from it for emotional reasons associated with Vietnam.

Because the program in no way compromises our own security, nor would it contribute in any way to helping the Soviets in their military support of North Vietnam.

Thank you very much.

The CHAIRMAN. Mr. Galifianakis?

Mr. GALIFIANAKIS. Thank you, Mr. Chairman. And thank you gentlemen for your comments and explanations.

I am interested in some elementary information.

How did the Fiat deal initiate?

Did the prospective purchaser initiate it or did the prospective sellers initiate it?

Mr. MCQUADE. The answer is to be found, as far as I know at least, on pages 4 and 75 of the record made by the Subcommittee on International Trade of this Committee.

Mr. GALIFIANAKIS. Let me ask you another question:

What other countries are in serious competition with the United States to furnish these parts for the automobiles?

Mr. MCQUADE. United Kingdom, France—these are suggested as two, at least. Possibly Germany. It looks like the technology is there with most of the industrialized Western European countries, and it is hard for us to know how our competitors are doing in the sense of trying to make sales.

Mr. GALIFIANAKIS. Do you know if they made overt solicitations to get the business—France, for example?

Mr. MCQUADE. I do not know. I think it is true, but I cannot say.

Mr. GALIFIANAKIS. On page 2 of your statement, Mr. McQuade, there are some very illuminating questions.

Have the responses to these questions been formulated?

Mr. MCQUADE. These are the questions we ask ourselves each time we receive an application, and, as I indicated, there are only four applications on hand, and I have indicated the disposition of those four. These are questions which lie ahead of us when we receive specific applications from particular American exporters for this purpose.

Mr. GALIFIANAKIS. Have any of these questions been responded to, with reference to the Fiat deal?

Mr. MCQUADE. In each of the four instances which I have outlined here, we have addressed ourselves to each of these questions, and we have come to the conclusion that on balance we could issue the license. As you realize, two of the licenses finally became irrelevant because there was already published technical data on it, and one of them was withdrawn because a European competitor got the job and the last one is still out and available to that person or that company to use in seeking other business. Whether they will get it or not is an open question.

Mr. GALIFIANAKIS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Bevill?

Mr. BEVILL. Thank you, Mr. Chairman.

I might say that I feel very strongly that the Export-Import Bank is a very important link in the operation of our Government, certainly

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in international commerce, and, obviously, being a self-sustaining agency of our Government it has done a lot of good.

I have several questions in mind, though, as far as this discussion is concerned here today.

One thing: We have been discussing the Fiat business, and I understand also there has been some trading—the Bank has financed exports to Hungary and other countries.

Could you give me, Mr. Leddy—First, could you tell me the other countries that we would be using this Bank for the purpose of building bridges, so to speak, to other Communist countries?

Mr. LEDDY. I can tell you what has been done so far by the Export-Import Bank with eastern countries.

We have a table that shows that from 1963 to date, the Export-Import Bank has guaranteed U.S. exports to Eastern Europe to a grand total of $140 million. This covers Yugoslavia, Hungary, Poland, Rumania, and Bulgaria. The goods that have been shipped under these credits include capital goods, agricultural commodities, and petroleum plants. As I understand it, of this total of $140 million, as of February, 1967, some $60 million has been exported, about $73 million is unexported, and there were cancellations of about $6 million. Repayments so far have totaled $27.6 million. The balance outstanding, $32 million, plus unexported amounts makes about $105 million which the Export-Import Bank has exposed.

I think that in the President's October message, if I am not mistaken, he endorsed the concept that the Export-Import Bank should be able to extend credits to all of the Eastern European countries, other than the Soviet Union, and East Germany of course.

That policy, of course, is for implementation by the Export-Import Bank, which has to make its own judgments on financing, feasibility, and so forth.

Mr. BLACKBURN. Would the gentleman yield?

Mr. BEVILL. Yes.

Mr. BLACKBURN. Along the line of the answer that was just given, is it not true that negotiations are now underway for the Export-Import Bank to finance some $10 million for the construction of a steel plant in Rumania?

Mr. LEDDY. I would have to provide that information for you, Mr. Blackburn. I will try to get that for you. It could be.

(The information requested follows:)

Certain American firms wish to participate in a consortium with European firms to construct a cold-rolled steel sheet and strip mill in Rumania. These American firms are seeking export licenses from the Department of Commerce and assurances of Eximbank guarantee facilities in support of their participation in the project if this consortium is awarded the contract. They have been advised that normal export licensing procedures and criteria will apply. U.S. participation would be limited to 25 percent of the total value of the contract, but would not be essential to the construction of the mill as a British firm with a comparable technology is also seeking the contract.

Mr. BEVILL. As I understand your testimony, the State Department, Defense Department, and Commerce Department have all taken the position that it is to the best interests of the Government that we have this Bank handle these transactions with these Communist countries.

In your opinion, is this going to help us bring the Vietcong to the

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negotiating table by fighting communism there in Asia and on the other hand making loans and negotiating with them?

Is that going to help us bring them, in your opinion, to the negotiating table, the Communists?

Mr. LEDDY. I would have to say that I do not see any significant relevant factor bearing on bringing the Vietcong or Hanoi to the negotiating table.

Mr. BEVILL. You do not feel that will have any effect, any psychological effect, on the war in Vietnam?

Mr. LEDDY. I would have to ask Mr. McNaughton to respond.

Mr. MCNAUGHTON. Only as part of the general policy of keeping the communications lines open with the Soviets for whatever role the Soviets might end up playing in such a thing as you describe. I think I subscribe to what Mr. Leddy said, that this is not a significantly relevant factor.

Mr. BEVILL. My time has expired.

The CHAIRMAN. Let us see. We have gone around once.

How many other members would like to ask questions?

How much time would we need before we can get through before 12 o'clock and excuse these gentlemen?

How many members would like to ask additional questions?

Would 3 minutes each be satisfactory?

All right. Mr. Gonzalez?

Mr. GONZALEZ. Thank you, Mr. Chairman. I just wanted to comment. I noticed the one important sentence, the statement this would not contribute significantly to the military potential of the Soviet Union.

The word "significantly," how relative is that, may I ask?

Is there any military potential help in this?

Mr. MCNAUGHTON. I am looking at the statutory language. That sentence in my statement, Mr. Congressman, was taken from the statutory language to make it fit exactly with what the statute said.

The statute said an export should not be approved if it contributes significantly, and I put the words in for that reason.

My own view is that it works the other way around. It contributes to the security of the United States and, in effect, detracts from their military capabilities.

Mr. GONZALEZ. It seems to me that one of the important things in the prosecution of the fighting in Vietnam is to have the money and resources with which to do it. As long as we trade to the benefit of this country without any military contribution to the enemy, I think it would be a fatal mistake not to do it.

Thank you very much.

The CHAIRMAN. Mr. Widnall?

Mr. WIDNALL. Mr. Leddy, if, because of congressional action, the United States were prohibited from participating in the Fiat proposal, do you believe there would be any significant diplomatic reverberations?

Mr. LEDDY. Well, I think the answer to that is: It would significantly limit our capacity to carry forward this broad program that I spoke of, and I think that would have broad ramifications. I am not saying that if this transaction is not consummated, this will be a severe blow to our diplomatic relations with Italy. I think the larger significance is that if we stop transactions of this sort, then you are

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driving a rather large hole in an important part of our overall policy.

Mr. WIDNALL. If you believe that concept, the large concept is best for the country as you so stated and as you just stated a few minutes ago, and this is the position of the administration, why did not the President in October include the U.S.S.R. in the list of Communist nations eligible for Eximbank credits, since they can be the beneficiary of the credits through an intermediary source?

Mr. LEDDY. The Italian credit is made to them independently of this. It is a direct credit from Italy to the Soviet Union. I think there are certain other limitations on credits to the Soviet Union under U.S. laws. We can supply that information for you. But I believe there are U.S. laws which prevent a direct credit to them.

Mr. WIDNALL. I would appreciate your furnishing that for the record.

The CHAIRMAN. Without objection, that will be supplied.

(The information requested follows:)

U.S. LAWS PROHIBITING CREDITS TO THE SOVIET UNION

ECONOMIC AND FINANCIAL ASSISTANCE

Because of the prohibition in the Battle Act (Mutual Defense Assistance Control Act of 1951) against U.S. Government economic or financial assistance to the Communist areas,[1] there is a general restriction against public financing of transactions with such areas if that financing is on terms which would constitute assistance for purposes of the Battle Act. Generally, the extension of the right of deferred payment for purchases, whether directly or through export guarantee or insurance, on terms commonly encountered in commercial transactions would not constitute assistance. U.S. Government agencies participate in such extensions of deferred payment for the purpose of facilitating U.S. exports, not to assist the purchasers. However, some public programs are subject to special additional restrictions.

A. ALL COMMUNIST COUNTRIES

1. Foreign Assistance Act

Section 620(f) of the Foreign Assistance Act of 1961, as amended, prohibits any assistance under that act to Communist countries, unless the President makes certain findings.

2. Export-Import Bank

The Export-Import Bank of Washington is authorized to guarantee insure, coinsure, and reinsure U.S. exporters. It conducts an export guarantee program to facilitate U.S. exports, and participates with the Foreign Credit Insurance Association, an unincorporated association of U.S. insurance companies, in a program of credit insurance covering U.S. export transactions. These activities, conducted within the range of common commercial practice, are not considered public assistance to countries which purchase U.S. exports and are not prohibited by the Battle Act.

However, title III of the Foreign Assistance and Related Agencies Appropriation Act, 1967 (Public Law 89-691, 80 Stat. 1024-1025) contains the following limitation on the authority of the Export-Import Bank to participate in financing U.S. exports to Communist countries:

None of the funds made available because of the provisions of this title shall be used by the Export-Import Bank to either guarantee the payment of any obligation hereafter incurred by any Communist country (as defined in section 620(f) of the Foreign Assistance Act of 1961, as amended) or any agency or national thereof, or in any other way to participate in the extension of c lit to any such country, agency, or national, in connection with the purch , of any product by such country, agency, or national, except when the P determines that such guarantees would be in the national interest

[1] Does not include Yugoslavia for this purpose.

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each such determination to the House of Representatives and the Senate within 30 days after such determination.

An identical provision has been contained in the corresponding appropriation act for previous fiscal years. The President has made determinations permitting Export-Import Bank guarantees and insurance on export sales of U.S. agricultural products to the U.S.S.R., Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia, and on export sales of other U.S. products to Romania, Yugoslavia, Poland, Hungary, Bulgaria, and Czechoslovkia.

PRIVATE CREDIT TRANSACTIONS—THE JOHNSON ACT

The Johnson Act (18 U.S.C. 955) prohibits certain financial transactions by private persons in the United States involving foreign governments which are in default in the payment of their obligations to the United States. The prohibited transactions include the making of "loans" to, and the purchase or sale of "bonds, securities, or other obligations" of, a foreign government which is within the statutory category.

The U.S.S.R. and all the countries of Eastern Europe with the exception of Bulgaria are governments in default in the payment of their obligations to the United States within the meaning of the Johnson Act. Yugoslavia is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development and is thereby exempted by the terms of the Johnson Act, as amended, from the prohibitions therein.

The Attorney General has ruled that the Johnson Act does not prohibit extensions of credit "within the range of those commonly encountered in commercial sales of a comparable character." Thus, deferred payment arrangements for exports from the United States to countries subject to the Johnson Act, with or without bank financing, are permitted, so long as the credit terms are comparable to those commonly given for export of the same commodities to other countries. Under sec. 11 of the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), transactions in which the Export-Import Bank participates are exempt from the provisions of the Johnson Act.

Mr. WIDNALL. To what extent would there be any East-West trade without Eximbank participation?

Mr. MCNAUGHTON. In general? I can't answer that question, I am sorry.

Perhaps Mr. McQuade can.

I am from the Defense Department, sir.

Mr. MCQUADE. It is our belief that the average businessman, when looking at the possibility of transactions with Eastern Europe, is worried because it is a different sort of market in which he would deal. He is worried about political overtones; he is worried about payment.

Now, the record for payment has been very good, indeed.

However, he is dealing with people who operate in the state-trading mechanism, and the way they are organized to do their business is different. As a result, he is far more interested in the sort of protections that he can obtain through the Export-Import Bank and the FCIA than he would be in other markets.

So, the answer is: Without the credit it would diminish the activity of American businessmen in this area.

Mr. WIDNALL. Just one further question.

I think there has been testimony up to now on the number of applications that have been approved and the volume of these on East-West trade under consideration now. What number of applications were rejected in connection with East-West trade? I do not think we have any figures on that.

Mr. MCQUADE. I can probably give you that as a matter of fact.

Mr. WIDNALL. You can submit it for the record.

The CHAIRMAN. Without objection, so ordered.

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(The information requested follows:)

In the calendar year 1966, 104 license applications for commodities valued at $3.6 million were rejected for export to Eastern European Communist countries. In addition, six technical data applications were denied.

During the first quarter of 1967, 14 license applications for commodities valued at $423,000 were rejected, plus one application for technical data.

These statistics alone do not necessarily reflect the total deterrent impact of export controls, inasmuch as some U.S. exporters acquainted with the program may refrain from submitting applications which they believe would elicit a negative response from Commerce. In addition, many firms before filing a formal export application, ask the Department for an informal indication as to whether a proposed transaction would encounter licensing problems, and when told that a problem may exist, simply do not file an application.

The CHAIRMAN. Mr. Rees?

Mr. REES. Do you have any figures at all in terms of what the cost of the plant will ultimately be to the Russian economy, in terms of the various highways, parking lots, gasoline stations, motels, whatever it is that has to be constructed to take care of 600,000 cars a year?

Mr. MCNAUGHTON. The best information I have is from your own report. It talks in terms of $800 million for the plant, $400 million for other plants like it, $400 million for the secondary effects, such as tires, gasoline, and the like, and another estimate, a very vague estimate, over a long period of time of several hundred million dollars, related to roads, service stations, and that sort of thing. This adds up to something like $2 billion, I would estimate.

Mr. LEDDY. That is correct.

Mr. REES. When I was there in December, Moscow had a population of 6 million people, and they had eight gas stations. I think they have three garages for the whole city. You make appointments months and weeks in advance.

Mr. MCNAUGHTON. And one-fifth of their automobiles are out of action at any given time.

Mr. REES. I can see why. They cannot find them in the snow.

Thank you.

The CHAIRMAN. Mr. Fino?

Mr. FINO. Mr. Leddy, is it not a fact that this idea of East-West trade was originally initiated and encouraged by the administration because there was a rift between Communist China and the Soviet Union, and now that these two countries have worked out an understanding, signed an agreement that would speed the flow of Soviet military supplies to North Vietnam across China, shouldn't we reevaluate this whole scheme as planned, this building of bridges, to the East?

Mr. LEDDY. Mr. Fino, first, I would say the policy of building bridges to the East has been a policy that has evolved over a period of time.

The first element was the aid we gave Yugoslavia at the time Yugoslavia became independent from the Soviet Union. We began in Poland in about 1956 and 1957 with some agricultural commodities, Public Law 480 sales. The central objective in this is characteristic of the whole bridgebuilding policy we have today, which has moved to a new dimension as these changes have been taking place.

I do not think that this policy rests upon or is affected directly by the Soviet-Chinese rift, which still remains. We do not interpret the recent technical arrangements regarding the flow of Soviet supplies into North Vietnam, as meaning that that rift has been materially

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healed. It appears to us that this rift is severe and will continue for a long time to come.

Mr. FINO. Well, are not the Latin governments disturbed over Washington's bridgebuilding to Eastern Europe? Is it not true that this East-West trade somewhat contradicts and undermines the Alliance for Progress, what with the Russians being on the move in this hemisphere?

Mr. LEDDY. I would not think so. The East-West trade legislation is designed to put us in a better position by offering most-favored-nation treatment to Eastern European countries that don't have it, to make arrangements selectively, with each case individually examined, which will broaden contacts, possibly settle some problems outstanding like claims. I have not heard of any serious expressions of opposition from Latin America to this policy.

Mr. FINO. Earlier in your testimony, I believe it was you, you made reference to Yugoslavia. Is it not true that Yugoslavia, so long as United States aid was pouring in, did nothing to implement economic reform, but once United States aid was stopped 2 years ago the Yugoslavs were obliged to help themselves and now they are introducing capitalistic concept and seeking foreign investments?

Mr. LEDDY. I would say that the aid that we provided in the earlier days enabled them to introduce some of these reforms they wanted to make. So that I would say, of course, the aid has helped in that respect and it is a rather interesting experiment that is going on in that country.

Mr. FINO. Mr. McQuade, how do you define "strategic"? Do you just leave it up to the White House to give you the word on what strategic materials are?

Mr. MCQUADE. No; I think in each instance we tried to abide by a test put forth in the Export Control Act and our effort is to look at what the particular use might be of a given item, and we do that by analyzing first on our own experience and second where necessary, by drawing upon industry and third, of course, by drawing upon the Defense Department and their expertise and others to make sure we get a full assessment of what this particular item might do to help the Soviets or any of the other Communist countries produce the kind of material or use the kind of material which would be directly military.

As you know, our bill requires us to observe whether we would add to the economic strength in a way which would have adverse effects in a strategic sense. I would like to get the exact language if I can find it here.

It says that we are prohibited from doing it if such export makes a significant contribution to the military or economic potential of such nation or nations which would prove detrimental to the national security and welfare of the United States. That is the test which we try to apply.

Mr. FINO. From the prepared statements that you three gentlemen have made here this morning and from the testimony that has followed, in my opinion it is quite obvious that this administration is more interested in benefits to American industry and the balance of payments than it is in the American human lives which are being sacrificed in North Vietnam.

Mr. MCNAUGHTON. I want to make clear that that is not the position of the Defense Department.

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Mr. FINO. I do not assume that you will accept my statement.

Mr. MCQUADE. I hope Mr. McNaughton includes the rest of us.

The CHAIRMAN. Who else wanted an opportunity to question? All right, Mr. Bingham?

Mr. BINGHAM. Thank you, Mr. Chairman.

I understand, Mr. McNaughton, it is your position and the position of the Defense Department that this transaction is not detrimental to the U.S. security but actually serves the purposes of U.S. security; is that correct?

Mr. MCNAUGHTON. That is correct.

Mr. BINGHAM. Would it be a fair summary of your position that this is so because you expect, by assisting the Soviets to increase their production of cars, light cars, by some 600,000 a year, to create a larger consumer demand in the economy which will cause them to put more relative resources into consumer industries and thereby to divert perhaps some from the military. Is that correct?

Mr. MCNAUGHTON. That is one of four points. The way we look at it is, when you have an adversary there are several things you can do. You can make yourself strong so you can handle him. That's the first requirement.

The next thing to do is try to change him. You try to make him weaker, and that's the point that you just made. You also, at the same time, try to change his nature, and this is what Mr. Leddy has been talking about. And last, you want to be sure that you and he don't misunderstand each other. This deal relates to the final three of the four points I have made.

Mr. BINGHAM. In relation to the problems previously raised by Mr. Gettys, Mr. McQuade, it is not true that these two models of Fiat cars are the type that are not manufactured in this country, that they are smaller than anything manufactured in the United States?

Mr. MCQUADE. I think that is true.

Mr. BINGHAM. Finally, Mr. McNaughton, will you comment briefly on the limitations involved in the Soviet supply to Hanoi of military and other equipment? Are they economic or are they policy limitations?

Mr. MCNAUGHTON. I would think they are not at all economic. As you read Chairman Wheeler's letter, you find he talks in terms of relative priorities, and the competition between these priorities—that you end up knocking off the things at the bottom of the priority list. I suspect under the present state of affairs that the Soviet Union places a high priority indeed on what they are providing for North Vietnam. I suspect the limitations are primarily two factors: Trouble getting things through China, at least until recently, and maybe still continuing, and then there are the policy limitations.

Mr. BINGHAM. Thank you.

The CHAIRMAN. Mr. Lloyd?

Mr. LLOYD. Mr. McQuade, if the Soviet Union had not been able to deal with the Fiat Co. or other similar companies, is it not true that Russia would have to produce additional cars herself?

Mr. MCQUADE. I can't say they would have to, but if they wanted to implement this decision, I am certain they would.

Mr. LLOYD. I am not setting a trap in any way.

Mr. MCQUADE. I know.

Mr. LLOYD. It seems to me that if there was no deal with Fiat t

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Russia would have to produce additional vehicles herself. In connection with that, Mr. McNaughton, because of this arrangement with Fiat, would it not be true that Russia would be able to devote a greater amount of her facilities and resources to the production of armaments?

Mr. McNAUGHTON. If it weren't for this deal, this is true.

Mr. LLOYD. That is true.

Mr. McNAUGHTON. This is General Wheeler's point in his letter.

Mr. LLOYD. By our assisting in this we are assisting actually Russia's capacity to produce more armaments.

Mr. McNAUGHTON. Just the opposite.

Mr. LLOYD. It seems to me she would have to produce more consumer goods if she were not able to make this arrangement through the Fiat Co. Is that wrong?

Mr. McNAUGHTON. I think that is wrong.

Mr. LLOYD. It does not seem logical to me.

Mr. McNAUGHTON. She has a number of places she can go for this deal.

Mr. LLOYD. Anywhere. That is true. At the same time she is making the deal.

Mr. McNAUGHTON. She is putting 30,000 to 40,000 workers in an automobile plant instead of doing something else. She is putting another several hundred million dollars of effort into this and not in something else. That is the point, sir.

Mr. LLOYD. In other words, the arrangement with Fiat concentrates more of the Russian resources and facilities in the production of consumer goods, is that right?

Mr. McNAUGHTON. That is the point.

Mr. LLOYD. And at the same time enlarges the economic base to produce consumer goods or whatever production she would like to use it for.

Mr. McNAUGHTON. This is a long-term assessment. I can't answer exactly as to the ultimate effect over 10 or 15 years.

Mr. LLOYD. My time is up.

The CHAIRMAN. Mr. Blackburn?

Mr. BLACKBURN. Gentlemen, if I understand the main thrust of the argument for the construction of the plant or the financing of the construction of the plant, first of all, this plant will not materially increase the war capacity of Soviet industry. Secondly, this will cause a diversion of resources into consumer fields.

Well, now, I want to know why you do not use the same logic to justify the construction of this plant in North Vietnam. Would any one of you propose that we construct such a plant in North Vietnam?

Mr. McNAUGHTON. That proposal has not been made.

Mr. BLACKBURN. You would definitely consider it, I take it, based on the same logic you use with the Russian Fiat transaction?

Mr. McNAUGHTON. That issue is not here. If North Vietnam got into this business we wouldn't have the type of war we are having in Vietnam today.

Mr. BLACKBURN. I do not think you have answered the question: Could you not use the same logic, the same rationale, to justify the construction of the plant in North Vietnam and would you approve the construction of this plant in North Vietnam today?

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Mr. McNAUGHTON. If I could find a way to divert 30,000 to 40,000 North Vietnamese into a totally non-war-related activity at this moment, I would support it.

The CHAIRMAN. Mr. Widnall wanted to ask Mr. Middleton of the Export-Import Bank, a question.

Mr. Middleton?

STATEMENT OF B. JENKINS MIDDLETON, VICE PRESIDENT, PROGRAM PLANNING AND INFORMATION, EXPORT-IMPORT BANK OF WASHINGTON

Mr. MIDDLETON. Mr. Linder said he would be available.

The CHAIRMAN. We do not have time to send for Mr. Linder, since we must adjourn in a few minutes.

Mr. WIDNALL. If you cannot answer the questions on this there would be time to submit the answer. But I would like to have it.

Last week Eximbank sold $400 million of participation certificates at interest rates of 4.80 percent for $250 million and 5⅛ percent for $150 million. I find this sale of interest in view of the fact that the prospectus show the Bank as of February 28, 1967—

(1) Had no funds borrowed from the Treasury and (2) held special obligations of the U.S. Treasury as an investment in the amount of $237 million.

On May 4 when the new participations are delivered for payment Eximbank will have $400 million which presumably will be invested in additional U.S. Treasury special obligations.

I further understand Eximbank shortly will have to pay off $200 million of maturing obligations. Allowing for this Eximbank still will be holding over $400 million of special Treasury obligations.

What rate of interest is paid to Eximbank on these special Treasury obligations?

What is the formula under which that rate is determined?

In fact, do we not have a situation in which Eximbank is in part financing the U.S. Treasury?

Is it is not a further fact that Eximbank is suffering a loss in so doing, since as I have noted, Eximbank paid 4.80 percent and 5⅛ percent to obtain the funds which it is investing in special Treasury obligations?

Mr. Chairman, I bring this up for the reason that, to me, it points up the fact that this committee ought to take a new hard look at the participation sales program. As I have repeatedly stated, the participation sales program is distorting our whole system of Government finance to such an extent that figures on Federal finance are becoming meaningless.

The Eximbank has to come up here and ask for an additional authorization because they do not have the money to do things and they are buying these Government obligations.

The CHAIRMAN. Would it be satisfactory for Mr. Linder to answer those from the record as Mr. Middleton said he prefers that?

Mr. MIDDLETON. I think you recognize, Mr. Widnall, these are rather complicated questions and I think that would be better.

The CHAIRMAN. Obviously we will have to be on the floor soon.

Mr. MULTER. I think Mr. Widnall has indicated that the Bank is

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in here looking for an additional authorization. I think that was implicit in his question. They are not asking for additional moneys. They are asking for additional lending authority.

Mr. WIDNALL. It is obvious, they will be in here asking for additional money. This is just leading up to that which will happen in the future.

(The information referred to follows:)

EXPORT-IMPORT BANK OF WASHINGTON,
Washington, D.C., April 28, 1967.

Hon. WILLIAM B. WIDNALL,
House of Representatives,
Washington, D.C.

DEAR MR. WIDNALL: I refer to the questions which were put by you at the hearings held before the Banking and Currency Committee today.

As of the close of business last night we held Treasury securities in the amount of $110 million, or some $125 million less than the amount held as of February 28. We shall be called upon to pay some $214 million during this month on account of participation certificates "put" to us and $45 million before the end of the fiscal year of installments on participation certificates outstanding. Moreover, in August we shall, if money markets remain in their present range, call for redemption some $312 million of participation certificates presently outstanding.

Thus we shall have received from the recent sales, as you point out, some $400 million, to which must be added the $110 million of Treasury securities we now hold, to offset payments which we expect to make over the next few months of some $572 million. These figures, therefore, indicate that anticipated payments on certificates will somewhat exceed receipts from offsetting sales plus our present balance.

Note, please, however, that I have not included in these calculations disbursements on account of loans made by the Bank or receipts from our debtors. Our present budget estimate is that within the next 2 months loan disbursements will exceed repayments by $160 million. I should make clear that while the receipt side is fairly certain, this is not the case with disbursements. Since our business is growing substantially I would not rule out somewhat greater increases in disbursements than our budget indicates. Since one cannot go to the market for money every month, it strikes me that the financing we have done is entirely appropriate.

The rate of interest paid by the Treasury on their certificates is set each month and has hovered within a few base points plus or minus of 4 percent.The formula used is based upon the average issuing rate of the last 3 months' Treasury bill auctioned at the end of the preceding month, rounded up to the next .05 percent, less 0.25 percent. The same formula is applied to special Treasury obligations held by Federal home loan banks.

The earlier portion of my letter has, I trust, indicated that I do not think the Bank is financing the Treasury.

For a month or two I suppose that if you wish to differentiate between the Bank and its only stockholder—the Treasury—it is correct to say that there is a loss taken by the Bank represented by the difference in interest rates carried by our recent sale of participation certificates and the rate received from the Treasury. But this, it seems to me, is not of great significance since (a) whatever the Bank loses the Treasury gains, (b) it is my view of the money market that it was wise to "buy" money 10 days ago and that the advantages which will accrue to us in the long run will more than compensate for any very temporary loss.

In all fairness it should also be noted that the Bank had for several years been able to obtain from the Treasury a portion of its borrowed funds at substantially less than market rates to insure that the Bank would not take a loss on loans made many years ago for European reconstruction.

Sincerely yours,

HAROLD F. LINDER.

The CHAIRMAN. Could we agree to this? We will not meet this afternoon as suggested—we will meet Monday morning on the silver bill at 10 o'clock. It is not contemplated that the hearings will be

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long. We will get through with the silver bill and take up both the silver bill and Export-Import Bank bill in executive session on Tuesday.

Mr. FINO. I object, Mr. Chairman. I think we should have the opportunity to question representatives of the CIA.

The CHAIRMAN. The whole committee will have to pass on that. These gentlemen here represent executive departments that belong to the group that was described at the request of Mr. Widnall, the Senior Interdepartmental Group.

Now, the CIA is a part of that Senior Interdepartmental Group and these gentlemen represented that group. They represented the CIA at the same time. It all involves policy questions.

Now, if we are going to have to get all these agencies, there will be a considerable delay. If you want to single out CIA, you will have the same right to get the other members of the Group. That means that we will not get through with this bill for a long time.

Mr. WIDNALL. Mr. Chairman, at the time we first took up this bill I made the suggestion that the CIA be brought into an executive session of this committee because we might have some rather pertinent questions. We recognize it is not a policymaking body, rather it acts as an advisory body because they have the information resources. I think that it could be important to have Mr. Helms come here. It would not necessarily have to be for long periods of time and this is with the consent and approval of the formal committee and we could question him in an executive session.

The CHAIRMAN. Mr. Widnall, may I suggest that the CIA's report is contained in a report made by Mr. Ashley and his subcommittee. It is all in print right here. Why should we delay this bill where this has been done, and the issues could be raised now and we could vote on them in executive session or open session and decide? Why, this would be just an undue delay.

Mr. MULTER. Mr. Chairman, I, for one, appreciate the chairman giving us this advance notice for prospective executive sessions of the committee. I think this discussion at the present time is for an executive session. This is neither the time or place to decide who will be heard or when or whether there should be further public hearings. I think we should proceed as you have indicated and have the executive session next week and determine then whether there should be further hearings.

Mr. WIDNALL. That will be fine. Let me say this: I am perfectly aware of what is in the report. That report is now a year old and there are changes throughout the world.

The CHAIRMAN. We will decide that Tuesday, then. We will start on the silver hearings at 10 a.m. on Monday.

Tuesday we will finish the silver hearings and we will take that up and also the Eximbank bill and decide on the question of hearing from representatives of CIA.

Mr. HALPERN. Mr. Chairman, I realize we only have a moment before the session will begin and I would like to, if I may, ask one question.

I would like to direct this question to Mr. McNaughton.

Suppose that Congress by an amendment prohibits the Ex rt-Import Bank from extending this credit to Fiat and restricts t

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undertakings generally. Do you foresee any possibility of a U.S. commercial bank or a group of U.S. institutions being willing to extend this kind of credit?

Mr. McQUADE. You mean Mr. McQuade.

Mr. HALPERN. I am so sorry.

Mr. McQUADE. I couldn't say for certain that they might not finance the sale to Fiat. It is a very difficult question to judge—$50 million is a lot of money.

Mr. HALPERN. You believe that commercial institutions might be willing to extend this credit?

Mr. McQUADE. It could be but it is unlikely.

The CHAIRMAN. The committee will stand in recess until 10 a.m. on Monday.

(Whereupon, at 12:02 p.m., the committee adjourned, to reconvene Tuesday, May 2, 1967, in executive session.)

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